

FINANCIAL TIMES

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World Business Newspaper THURSDAY APRIL 25 1996

Britain submits plan for cattle cull to Brussels

Britain's dispute with the rest of the European Union over beef exports appeared closer to resolution yesterday when London sent Brussels its long-awaited proposals for a selective slaughter of cattle to curb mad cow disease. The move marked the first sign of a breakthrough in the five-week old crisis sparked when the UK government disclosed a possible link between BSE and a fatal brain disease in humans. London is proposing to cull about 42,000 cattle believed to be most at risk from BSE. Page 10

Boost for Northern Ireland peace process
Northern Ireland's moderate nationalist SDLP party and Sinn Féin, political wing of the anti-British IRA, agreed to contest elections in the province next month. The poll should result in a forum from which all-party peace talks can be launched. Sinn Féin president Gerry Adams (left) said his party was participating to seek backing for its peace strategy but would not take part in the forum. Page 10

PLO votes to change anti-Israeli charter
The Palestinian parliament-in-exile voted by a big majority to amend clauses in the charter of the Palestine Liberation Organisation which call for Israel's destruction. Israel has made the amendments a condition for moving its troops from part of the West Bank town of Hebron and for starting talks on the final status of Palestinian areas. US peace shuttle switches to Lebanon. Page 7

Nomura profits surge
Buoyant bonds helped Japan's Nomura, biggest of the country's "big four" stockbrokers, to a thirteen-fold rise in annual pre-tax profits to ¥91.5bn (\$555m) - the best result from a Japanese house for five years. Page 19

Cult leader in court
Japanese cult leader Shoko Asahara refused to plead on the opening day of his murder trial for the Tokyo subway nerve gas attack of March 1995. Page 4

UN orders releases
The UN tribunal for Yugoslavia in The Hague ordered the immediate provisional release on humanitarian grounds of Bosnian Serb general Djordje Djukic, who has cancer, but the war crimes charges against him will be maintained. Nato bans Bosnian army flights. Page 3

Yeast yields genome secrets
Scientists have completed a seven-year project to "map" yeast's genetic material. The knowledge should help research into human disorders, speed drug design as well as benefiting brewers and bread makers. Technology. Page 28

Seoul to ease labour laws
South Korea is to revise its restrictive labour laws to get in to the Organisation for Economic Co-operation and Development, president Kim Young-sam indicated. At present there can be no more than one union in a company, third parties are barred from intervention in disputes and unions cannot give money to political parties. Page 18

UK oil bonanza rolls on
Britain's North Sea oil and gas bonanza could last until the mid 21st century, a minister said, confounding fears that the industry would decline in the 1990s. Oil production last year reached a high of 130m tonnes. Page 10

SmithKline Beecham Biologics
An arm of Anglo-US healthcare group SmithKline Beecham is to build a vaccine plant in Changshai as the start of a \$100m investment plan for China.

Major condemns Euro-sceptics
Britons who favour withdrawal from the European Union are living in "cloud cuckoo land", UK prime minister John Major said. His remarks were partly aimed at billionaire Sir James Goldsmith, who is financing a new party to campaign for a referendum on the UK's relationship with the EU. Page 10

FedEx chief attacks UK air policy
Federal Express chief Frederick Smith, accused Britain of running a restrictive aviation policy. The world's leading parcels group is to expand its main European distribution centre in Paris. Page 19

Chechen leader confirmed dead
Chechen rebel commander Shamil Basayev confirmed that separatist leader Dzhokhar Dudayev had been killed. He said Dudayev's deputy, Zelimkhan Yandarbiyev, had taken over as rebel leader. Page 2

Cambodia offers hawer
Cambodian first prime minister Prince Norodom Ranariddh offered wealthy Hong Kong residents citizenship so they can help rebuild the war-ravaged country.

STOCK MARKET INDICES

New York: Dow Jones Ind. Av.	5,539.45	(-48.14)
NASDAQ Composite	1,774.15	(-6.38)
Europe and Far East:		
CAC40	2,122.10	(+10.12)
DAX	2,338.28	(-11.92)
FT-SE 100	3,877.6	(-15.4)
Nikkei	22,267.05	(+162.17)

US LUMBER RATES

Federal Funds	5.75%
3-mth Treasury Bill	5.105%
Long Bond	8%
Yield	5.76%

OTHER RATES

UK 3-mth interbank	8%
UK 10 yr Gilt	8%
France 10 yr GAT	106.05
Germany 10 yr Bund	87.75
Japan 10 yr JGB	37.84

NORTH SEA OIL (Average)

Brent Data	\$20.35	(20.9)
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FOREIGN EXCHANGE

US\$	163.00
DM	163.00
Yen	163.00
Swiss	163.00
French	163.00
Italian	163.00
Spanish	163.00
Japanese	163.00
South African	163.00
Canadian	163.00
Australian	163.00
Hong Kong	163.00
Singapore	163.00
Mexico	163.00
India	163.00
China	163.00
South Korea	163.00
Taiwan	163.00
Malaysia	163.00
Indonesia	163.00
Philippines	163.00
Thailand	163.00
Sri Lanka	163.00
Kenya	163.00
Uganda	163.00
Zambia	163.00
Zimbabwe	163.00
Botswana	163.00
Lesotho	163.00
Swaziland	163.00
Malawi	163.00
Mozambique	163.00
Angola	163.00
Cape Verde	163.00
Guinea-Bissau	163.00
Sierra Leone	163.00
Liberia	163.00
Ivory Coast	163.00
Ghana	163.00
Senegal	163.00
Gambia	163.00
Guinea	163.00
Equatorial Guinea	163.00
Gabon	163.00
Congo	163.00
Congo-Brazzaville	163.00
Cote d'Ivoire	163.00
Upper Volta	163.00
Niger	163.00
Nigeria	163.00
Chad	163.00
Sudan	163.00
Ethiopia	163.00
Somalia	163.00
Kenya	163.00
Uganda	163.00
Zambia	163.00
Zimbabwe	163.00
Botswana	163.00
Lesotho	163.00
Swaziland	163.00
Malawi	163.00
Mozambique	163.00
Angola	163.00
Cape Verde	163.00
Guinea-Bissau	163.00
Sierra Leone	163.00
Liberia	163.00
Ivory Coast	163.00
Ghana	163.00
Senegal	163.00
Gambia	163.00
Guinea	163.00
Equatorial Guinea	163.00
Gabon	163.00
Congo	163.00
Congo-Brazzaville	163.00
Cote d'Ivoire	163.00
Upper Volta	163.00
Niger	163.00
Nigeria	163.00
Chad	163.00
Sudan	163.00
Ethiopia	163.00
Somalia	163.00

Unions vow to launch campaign against reform plans after talks fail

Setback on German work unity

By Peter Norman in Bonn and Wolfgang Münchau in Cologne
German unions yesterday vowed to launch a public campaign against government welfare and employment reforms after the collapse of talks aimed at building a consensus among employers, the unions and the government.
The breakdown of the tripartite talks coincided with a declaration from the head of the country's main employers' body that the traditional consensus model of industrial relations had failed.
Mr Dieter Schulte, head of the German trade union federation (DGB), accused chancellor Helmut Kohl's government of falling

under the influence of big business and turning its back on the welfare state after Bonn announced it would legislate to curb Germany's generous sick pay and ease rules giving workers protection against dismissal.
The DGB leader said the meeting in the chancellery was frosty and marked "a shift away from the search for consensus towards conflict". He said Mr Kohl, who called the Tuesday night talks to reach agreement on a range of policies to strengthen Germany's economy and boost employment, showed no awareness of social injustice and in this respect appeared "no longer in control of his actions".
The moves came amid growing

fears over Germany's economic malaise, with a report yesterday showing that company failures in January were 13 per cent up on the year before. In addition, the Ifo economic research institute in Munich announced its monthly business climate indicator moved down again in March.
After Tuesday's meeting Mr Schulte, usually a moderate trade unionist, said he felt "hurt and angry". While stopping short of threatening strike action, he promised that the unions would take action and mobilise support

against government plans, due to be announced tomorrow.
A joint statement by five union leaders who attended Tuesday's talks accused the government of contributing to an "alliance against jobs" rather than the alliance for jobs - the union-proposed trade-off between pay restraint and job creation that has been at the centre of government and union efforts to cut Germany's unemployment of more than 4m since late last year.
The statement rejected legislation to restrict sick pay and said plans to ease the rules restricting dismissals "meant Germany's entry into the US system of hire and fire". Planned changes to

pensions, including a rise in the pensionable age for women, would "boost unemployment and be poison for public budgets".
Mr Kohl yesterday continued internal government discussions on the package of spending cuts, welfare changes, tax reforms and deregulation in preparation for their disclosure to MPs of the coalition parties late today.
In an interview before the talks, Mr Hans-Olaf Henkel, president of the Federation of German industry, said the German trade union movement was facing terminal decline, and suggested that Germany would move increasingly towards an Anglo-Saxon style emphasis on individual self-reliance.



Russian leader Boris Yeltsin (centre) and China's president Jiang Zemin (far left) in Tiananmen Square, Beijing, reviewing the honour guard welcoming Mr Yeltsin at the start of a three-day visit to China during which more than a dozen trade and other agreements will be finalised. Report, Page 4

UK in surprise block on power industry bids

By David Wighton, Patrick Harverson and Robert Peaton in London
The UK government surprised London's business district and threw the electricity industry into renewed turmoil yesterday by blocking bids by National Power and PowerGen for two of the UK's largest electricity distributors.
The decision, which overturns the recommendation of the UK Monopolies and Mergers Commission, opens the possibility that National Power and both distributors, Southern Electric and Midlands Electricity, will be the subject of bids by foreign companies.
However, the government issued a veiled threat to Southern Company, the US utility which has expressed an interest in bidding for National Power.
A colleague of Mr Ian Lang, UK trade and industry secretary, pointed out that the government retained golden shares in both National Power and PowerGen which prohibited any other company from holding more than 15 per cent of their shares.
He said there was "no possibility" of the government simply

waiving this restriction if Southern or another company made a bid.
Investors had expected the bids for the distributors to be cleared. The mergers would have created two vertically integrated groups, bringing together electricity generation with distribution which were kept separate at the time of privatisation.
Mr Lang said he believed that vertical integration was not inherently objectionable. "However, the adverse findings in the MMC's reports lead me to the view that, in the current state of the market, there would be significant detriments to competition if these mergers proceed."
Professor Stephen Littlechild, industry regulator, welcomed Mr Lang's move which he said was "a good decision for the country". He added: "The striking thing about the MMC report was that they could not find any benefits from the mergers."
The Labour party opposition also supported the blocking of

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Lex, Page 18; Lang makes his mark, Page 27

Hollinger in \$420m agreed offer for Telegraph shares

By Christopher Price in London
Hollinger International, the US group controlled by Mr Conrad Black, yesterday made a \$420m agreed offer for the minority shareholding in The Telegraph, the UK newspaper publisher.
The Canadian entrepreneur has been keen to restructure his media empire in readiness for a possible bid for Fairfax, the Australian media group, among other potential interests.
The Telegraph owns a 25 per cent stake in Fairfax, the maximum allowed under current Australian legislation governing media ownership. However, an inquiry into the issue has been launched by the Australian government which should report by the end of the year.
Mr Kerry Packer, the Australian entrepreneur, and Mr Rupert Murdoch, News Corporation chairman, both have stakes in Fairfax, with the former in particular also keen to gain control of the publisher of the Sydney

Morning Herald, Melbourne Age and Australian Financial Review. Hollinger said it would consider selling its stake if the review were not to go in its favour.
The Telegraph shareholders are also to be offered a pro rata share of proceeds from any sale of the Fairfax holding made at over A\$3 a share. Fairfax shares are currently trading at A\$2.90.
Mr Dan Colson, deputy chairman of The Telegraph and a director of Hollinger, said Hollinger International, formerly known as American Publishing, would consider raising \$150m in equity financing to help pay for the Telegraph deal. Earlier this year, the group raised \$400m in new equity and debt.
The Telegraph offer is Mr Black's second attempt within a year to buy the group. An attempt 10 months ago failed when the independent directors representing the minority shareholders rejected his offer, thought to be around 470p-a-share, as too low. The new 560p-a-

share offer, which is being recommended by the independent directors, comes with a special dividend of 10p a share. In London, The Telegraph shares rose 96p to 569p. Hollinger International shares were trading at \$12.25 on Wall Street, down one-eighth.
The offer values The Telegraph at \$763m.
Mr Colson said the difference between the two offers for The Telegraph reflected the swiftly changing fortunes of the UK newspaper industry.
"Last year, we were in the middle of a full-scale price war and escalating newspaper costs. Today's environment, while still difficult, has improved markedly."
Should Telegraph shareholders accept, the sale will sever Mr Black's links with the UK stock market. He first bought into the newspaper group in 1985, taking the company public in June 1992, but retaining a majority control.

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Scoop of the year, Page 27

Brussels vetoes platinum merger in S Africa

By Neil Buckley in Brussels, Mark Ashurst in Johannesburg and David Lascelles in London
The European Commission yesterday vetoed the proposed merger of the South African platinum interests of Lonrho of the UK and South Africa's Gencor on the grounds that it would have left the world's platinum market in the grip of a duopoly.
It also issued a clear warning that any attempt by Anglo-American, South Africa's largest company which also has extensive platinum interests, to take control of Lonrho was likely to be blocked for similar reasons. Anglo American took a 6 per cent stake in Lonrho last month.
The decision, announced by Mr Karel Van Miert, European competition commissioner, is only the Commission's fifth veto of a merger since it was given responsibility for vetting large mergers involving European Union companies in 1989. It is the first time the Commission has blocked a merger of companies' interests located entirely outside the EU.
Impala Platinum Holdings, Gencor's platinum company, pledged to challenge the decision in the European Court of Justice.
Mr Van Miert said if the merger had been allowed, it would have left the new company and Anglo American's platinum business, Amplats, with control of more than 60 per cent of the world platinum market and 50 per cent of world reserves.
He said the platinum market's concentrated nature would have made it difficult to restructure the deal to meet the Commission's competition concerns. Gencon had offered "behavioural remedies", including pledges not to cut production and to invest in new capacity, but these were ruled insufficient.
Mr Dieter Bock, Lonrho's chief executive, said he was "puzzled" that the Commission had prevented a transaction to which European consumers had very little exposure.
Lonrho is unlikely to appeal against the decision and it has

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MARIS

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NEWS: EUROPE

Russian military denies reports that Dzhokhar Dudayev was killed in rocket attack and blames local feuding

Chechen leader's death threatens renewed instability



A metaphor for the collapse of the Soviet Union: the late Dzhokhar Dudayev at a press conference in the Chechen capital, Grozny, last year

By John Thornhill in Moscow

Mr Dzhokhar Dudayev, the rebel Chechen leader, has been killed, Chechen and Russian sources independently confirmed yesterday. His death threatens to provoke a fresh wave of instability in the troubled Caucasian region.

fallen victim to internal Chechen feuding. "Federal forces had nothing to do with the death of Dzhokhar Dudayev," General Vyacheslav Tikhomirov said.

broken the Chechen people, who are prepared to continue the struggle, started by Dzhokhar Dudayev, for their independence," said Mr Zelimkhan Yandarbiyev, who has taken over as Chechen leader.

who is trying to mediate in the conflict, cast doubt on the prospects for peace and forecast a further deterioration of the situation.

authority will devolve to prominent field commanders, such as Mr Shamil Basayev, the radical Chechen leader who led the hostage-taking raid on Budennovsk last year, and Mr Aslan Maskhadov, the seemingly more moderate Chechen military commander who conducted peace talks last summer.

Dudayev - local hero or mere mafioso?

By Chrystie Freeland in Moscow

In his transformation from bemaddled Soviet air force general to a rebel commander who humiliated the Red Army, Mr Dzhokhar Dudayev was a human metaphor for the collapse of the Soviet Union.

In the early 1990s he joined many of the more liberal members of the Soviet elite in breaking with the Soviet old guard and supporting the national independence movements which sprang up across the crumbling empire.

And, as the leader of Chechnya's drive for independence, Mr Dudayev became the central figure in a bloody war which many observers believe has fatally weakened Russia's fragile democracy.

In the eyes of many of his people Mr Dudayev, who held the Russian army at bay for 16 months, was a hero, elevated to martyrdom by his reported death

this week in a Russian rocket attack, in the view of the Kremlin's embarrassed leaders, and some of his domestic opponents, he was the criminal leader of one of Russia's most powerful mafias who irresponsibly led his country into a suicidal defiance of Moscow.

Both friends and foes acknowledge Mr Dudayev's crucial role in a conflict which Mr Yeltsin has described as the biggest mistake of his administration and which could sabotage the Russian leader's effort to beat his Communist rival in the June presidential ballot.

Analysts are divided on the implications of Mr Dudayev's death: some warn that it could spark a fresh outburst of violence as Chechen fighters avenge their leader's death, while others predict that without his charismatic president the Chechen resistance will crumble.

But they agree that the killing is likely to be a turning point in the Chechen conflict.

Mr Dudayev's fierce resistance to Russia has deep roots. In February 1944, when he was just a month old, his family, together with the entire Chechen people, were deported overnight from their homeland to the arid steppes of central Asia.

The intense animosity towards Moscow bred by that experience, and by his people's history of resistance to Russian rule, was initially obscured by Mr Dudayev's stellar rise through the ranks of the Soviet military. But his latent sympathy for the peoples who had been oppressed by the Tsarist and Soviet regimes became apparent in the late 1980s, when he was appointed as the commander of an air force base in Estonia.

A slim, energetic man with a dandy's moustache, who always appeared neatly dressed even on the battlefield, Mr Dudayev is still beloved by many Estonians because of his support in

those years for the Baltic state's effort to break away from the USSR. He disobeyed Moscow's orders to deploy his men against peaceful Estonian demonstrators.

In January 1991, Mr Dudayev returned to Chechnya, where he was elected president in October and declared independence. He resisted Moscow's initial effort in November 1991 to bring the republic back under Russian control, but three years later the Kremlin tried again, launching a bloody conflict which has reduced much of Chechnya to rubble but is still unresolved.

As Chechnya was reported to be burying Mr Dudayev yesterday, the big question was whether they would be determined to carry on the struggle he began under the new leadership of his former deputy, Mr Zelimkhan Yandarbiyev, a former writer and headline supporter of full independence.

Flynn defends European Court

By Caroline Southey in Brussels

The European Court of Justice should not be used as a "political football", Mr Padraig Flynn, the EU commissioner for social policy, will warn today, in an implicit attack on the British government's attitude to the institution.

In a speech to the American Bar Association in London, Mr Flynn says it is "incredible" that politicians from a legal tradition in which judicial precedent has played a crucial role "should suddenly find it shocking that, in a European context, it is the Court of Justice which is the final arbiter of legal interpretation".

His comments come in face of growing support for Eurosceptics in the British parliament opposed to the UK being

under the jurisdiction of the court. On Tuesday, 66 Conservative MPs voted in defiance of government policy for a measure to exempt the UK from the court's rulings.

British sensitivities about the court's role were heightened this month when the French advocate general of the court recommended that the UK's arguments challenging the legality of the Working Time Directive, which sets down a maximum 48-hour working week, should be rejected. His opinion is not binding, but is followed by the court in the majority of cases.

Mr Flynn warns that to introduce "any qualification of the principle that it is the courts who interpret and apply the law in situations of legal dispute is to start down a very slippery slope".

He argues that any dilution of this principle would be "dangerous and would take us down a road which, in the past, has led to the diminution and, in extreme cases, to the suppression of democracy".

'A road which has led to suppression of democracy'

Dismissing the UK's contention that the Commission was motivated by political rather than legal factors when it chose to bring the directive forward as a health and safety issue, he says: "Disputes about the legal basis of directives are commonplace. They are the normal stock in trade of council discussions".

directive was a piece of social legislation, which requires a unanimous vote in the Council of Ministers, rather than health and safety legislation, which can be agreed by qualified majority.

It contended that the Commission had chosen to bring the legislation forward as a health and safety issue to avoid having to secure a unanimous vote in the council.

The advocate general's opinion could, in fact, prompt a raft of new social legislation being presented on the basis of health and safety requirements. He argues that health and safety should be given a broad interpretation "far removed from an approach confined to the protection of workers against the influence of physical or chemical factors alone".

Hopes for five-star hotel in Kiev

By Matthew Kaminski in Kiev

Three British developers are poised to do what others have so far found impossible: open the first five-star hotel in Kiev.

Central European Investments, a private UK company, last year formed a joint venture with the left-dominated parliament and within two weeks plans to name a western operator to refurbish and run the Moscow Hotel.

Construction will start this year and doors will open before 1999, according to Mr David Brown, CEI director.

Every other large hotel and office property deal to date has failed in Kiev, while western guest houses mushroom in Moscow, Almaty and other new capitals in the former Soviet Union.

Mr Leonid Kosakivsky, the mayor, has scuttled several multi-million-dollar projects, frustrating investors and developers. The city owns the old tourist hotels, which, blessed with a monopoly, can charge high western prices for Soviet-style rooms.

CEI found a loophole. Ukraine's parliament owns the Moscow Hotel, centrally located on the hill overlooking Independence Square. Long negotiations yielded a joint venture agreement endorsed by the parliament's leadership.

The Stalinist-style building is to be stripped down to the main frame and rebuilt, and the MPs who currently live in it will be given other accommodation.

It is understood the project enjoys the backing of Mr Oleksandr Moroz, the Socialist speaker of parliament, where Communists and Socialists have a majority. Mr Moroz this week celebrated Lenin's birthday, but has described the Moscow Hotel venture as making good business sense.

The success of hotel ventures in the former Soviet Union depends on the location and the ability to enter the new market quickly. The Moscow Hotel, if completed on time, would satisfy both criteria.

The nearly dozen western-style hotels that recently opened in Moscow, the Russian capital, are able to charge the highest rates in the world because demand exceeds supply. Kiev offers a similarly distorted market.

CEI did not want to reveal the profit sharing scheme reached with parliament or the western financing it said was available.

Mr Brown was general counsel at Olympia & York, the Canadian group, and handled the troubled Canary Wharf development in London. Eighteen months ago he teamed up with a Scottish architect and a British-Ukrainian, Ms Bohdana Krushelnycky, to set up CEI specifically to do the Moscow Hotel deal.

Ms Krushelnycky came back to Ukraine four years ago and developed the good contacts critical in a difficult investment climate.

"Ukraine needs a five-star hotel to encourage business travel and foreign direct investment," said Ms Roberta Feldman, a Ukraine investment officer at the International Finance Corporation.

Overhaul of French health system gets cabinet go-ahead

By Andrew Jack in Paris

The French cabinet yesterday approved the three legislative changes to overhaul the country's costly health system over the next few months.

The "ordinances", which are not subject to full parliamentary scrutiny, complete the legislation to enact the social security reforms announced by Mr Alain Juppé, the prime minister, last November, to a storm of protest.

The health reforms triggered divisions within the medical profession - three unions called them a move towards the "rationing" of healthcare while a fourth, representing most general practitioners, backed the changes.

CSMF, one of the unions currently involved in strike action which has included blocking

streets and closing surgeries, said one in two Parisian doctors had stopped work, while MG-France, which called on its members not to protest, estimated the effect was less than 20 per cent across the country.

One of the ordinances creates a new regional system of administration for France's hospitals, designed to create a more localised and more tightly managed network.

The second covers the conduct of doctors and introduces a system of records for everyone in the country to show their use of the health system and provide sanctions for those who abuse it.

A third deals with the management of the country's three social security agencies, which cover health, retirement and family assistance. The power is to be more equally divided between unions and representatives of business, with regional administrators appointed by the cabinet.

In an interview in Le Monde, Mr Jacques Barrot, the social

affairs minister, denied suggestions that the reforms would lead to rationing, but would cut down on abuse and provide assistance "on the basis of just care, medically justified and economically adapted".

Mr Barrot warned last week that the social security deficit for 1996, which the government needs to reduce to meet its overall budget deficit targets, would be nearer FF750bn (\$5.6bn) than the FF170bn previously forecast. He said yesterday that he hoped to maintain his target for an increase in medical expenses during the current year of 2.1 per cent.

The National Assembly is set to debate the ordinances in September, and the modifications will begin to be put in place shortly thereafter, with a medical registration book distributed to everyone in the country. Separately, the government plans to introduce draft legislation to the French parliament this summer on the creation of a universal health insurance system.

Government blocks Athens casino plan

By Kerin Hope in Athens

A project to build a casino and resort complex aimed at attracting high-spending tourists to Athens was blocked by the government yesterday.

Instead, the Socialist government is to modernise the rundown Mont Parnes casino near Athens, which belongs to Greece's state tourist organisation, and invite bids from international casino operators to take over its management.

Greece's development minister, Ms Vasso Papanandreu, said yesterday a casino which operated last year at Loutraki, opened by Powerbrook of Israel, would have to renegotiate its licence with the government.

The Loutraki casino, two hours' drive from Athens, is likely to do more business following the decision to cancel the Athens casino project.

The government's tourism policy is being revamped under Ms Papanandreu, who opposes the previous administration's plan to raise Dr60bn (\$165m) in

revenues by awarding 14 casino licences around Greece. Ms Papanandreu's decision earlier this month to revoke a licence for a second Athens casino, awarded 18 months ago to a Greek-South African consortium, confused investors and prompted a fall in Athens share prices.

Four Greek construction companies listed on the bourse paid Dr11bn for the Athens licence, in partnership with Sun International, the gaming concern controlled by Mr Sol Kerzner, the South African hotel operator.

However, Ms Papanandreu made clear that two other casino projects involving US investors would go ahead.

Hyat International, in partnership with the Laskarides shipping group, has invested \$130m in a casino resort under construction in northern Greece. Playboy Enterprises, whose Greek partners include a state-owned bank, has paid Dr2.4m for a licence to operate a casino on Rhodes.

Turkish parliament votes for corruption probe into Çiller

The Turkish parliament yesterday voted to set up a commission to investigate corruption charges against Mrs Tansu Çiller, the former prime minister. Agencies report from Ankara.

MPs backed by 282-179 a motion by Refah, the Islamic fundamentalist party, for an inquiry into alleged links between Mrs Çiller and contract irregularities at Tadas, the state-run electricity company, during her 1993-95 premiership.

The move involves allegations that Mrs Çiller and her tycoon husband headed a "Waterfront Gang" - named for her posh villa on the Bosphorus - that used the government for personal gain. Refah accuses the former prime minister of "misuse of power and privilege and causing losses to the state".

The probe could imperil the six-week-old centre-right coalition government between Mrs Çiller's True Path party and the Motherland party of Mr

Mesut Yilmaz. Under their power-sharing arrangement, Mr Yilmaz is currently prime minister and is to be succeeded by Mrs Çiller next year.

Refah had accused Mrs Çiller of ordering the energy department to favour certain companies in a public tender for a \$300,000 contract.

Refah has said it will also seek an inquiry into the source of Mrs Çiller's wealth, estimated at \$7m.

Mrs Çiller, Turkey's first woman prime minister, has vigorously denied the charges, saying they are calculated to bring her political downfall.

A 15-member parliamentary commission will study the charges for two months before submitting a report to Parliament. Even if the report suggests she be prosecuted, a majority vote is needed in the 560-member parliament to send her to court.

At the end of this year - a deputy standing trial in the supreme court cannot serve as prime minister.

The Democratic Left party, led by former premier Mr Bulent Ecevit, is preparing its own demand for a probe of the privatisation by Mrs Çiller's government of the Tofas automotive company. This will be debated in parliament next month.

The allegations over the Tadas project were initially raised by the Motherland party, some of whose deputies joined Refah - the largest single party in parliament - in yesterday's vote. Mr Yilmaz campaigned on a platform critical of Mrs Çiller's handling of public tenders and privatisation projects in last year's general election, and has declined to rally his deputies in parliament to vote for her.

There were press reports that she had told her party that she would withdraw from the coalition if Motherland backed the probes.

Anger as Commission blocks far-off platinum merger

Brussels' move is likely to hurt Gencor more than Lonrho, report Mark Ashurst and Neil Buckley

Lonrho and Gencor's Impala Platinum both condemned yesterday's rejection by the European Commission of the proposed merger of their platinum interests.

But while Mr Dieter Bock, Lonrho's chief executive, merely said he was "puzzled" the Commission had prevented a transaction to which European consumers had little exposure, Mr Michael McMahon, Impala's chairman, said Impala would challenge the ruling in the European Court, and accused the Commission of "ignoring compelling evidence that this merger was based on the soundest pro-competitive rationale".

Mr Tiny Rowland, Lonrho's founder, proclaimed the Commission's decision a victory for him. He has consistently opposed the merger as "not being good enough for Lonrho shareholders" and said he had provided technical and financial evidence to Brussels.

The differing strength of the reactions of the two companies perhaps reflects the different extent of the impact the decision will have on them. Analysts believe the decision will be more of a blow to Gencor than to Lonrho.

They said the demerger of Lonrho's mining and non-mining interests, proposed by Mr Bock in January, was even more likely to go ahead following the ruling. They

added that that the UK conglomerate was unlikely to have difficulty finding another buyer for its platinum interests.

One candidate might be Broken Hill Proprietary of Australia. Another might be Anglo-American Corporation, South Africa's biggest company, which last month took a 6 per cent stake in Lonrho. But the Commission gave a clear signal yesterday that any deal that left Anglo-American in control of Lonrho's platinum interests was likely to run into the same kind of competition problems as the vetoed Lonrho-Gencor deal.

In London, Lonrho's share price fell only 1/4p to 197 1/2p.

For Gencor, the ruling may be a more of a setback. After a four-month Commission investigation, any appeal by Impala will need to make a new case for the merger.

Analysts yesterday generally agreed that a challenge to the Commission's jurisdiction was a more likely basis for an appeal than a restructuring of the proposed merger.

The ruling will also raise questions about the EU's role in Africa, and is widely expected to result in a challenge to the premise that the Commission can have jurisdiction over multinational mining groups more than 10,000km from Europe.

There were also doubts yesterday over the stance of South Africa. Contrary to the Commission's claim that South Africa had broadly supported Impala's claims, reliable sources at Impala claimed that Mr Thabo Mbeki, South Africa's deputy president, had endorsed the merger.

"The ANC has always been critical of anti-competitive behaviour among the biggest conglomerates. In general terms, the government would share the EU's concerns, but that does not mean it accepts their jurisdiction," said one analyst. The government had no comment yesterday.

The EU is opposed to "the creation of a duopoly on the supply side of the platinum market", if, as expected, Anglo bids for control of Lonrho's mining assets, it would probably be forced by the European Commission to sell Lonrho's Western Platinum and Eastern Platinum mines to a third party. Australia's Western Mining group has been mooted as a possible buyer.

Impala already has a 27 per cent stake in the Lonrho companies, and in terms of a January 1990 agreement has a right of refusal on the remaining shares should Lonrho choose to sell.

In terms of the proposed merger, Lonrho and Impala, which is controlled by Gencor, would each have held a 91.2 per cent stake with the balance held by institutions.

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Tietmeyer warns social partners on jobs

By Peter Norman in Bonn

Mr Hans Tietmeyer, the Bundesbank president, yesterday warned Germany's employers and trade unions that they carried the main responsibility through collective bargaining on wages and conditions for cutting unemployment - more than 4m at present.

In the Bundesbank's annual report, he stressed that German business needed to operate in more calculable and stable conditions over the long term than had been possible in the

five years since unification. Producing these conditions also required a breaking down of regulatory rigidities, a thorough-going consolidation of the public finances, including the social security system, and reductions in taxes and other levies, he said.

The Bundesbank's report, released only hours after the trade unions broke with the government and employers over measures to boost the economy by curbing workers' rights, was moderately optimistic about Germany's economic prospects this year.

However, in his foreword, Mr Tietmeyer said a concerted effort was needed if Germany was to meet the Maastricht public sector deficit criterion of 3 per cent of gross domestic product by early 1998, when a decision would be made on which countries should join economic and monetary union.

In a reference to the negotiations in the government on spending cuts and welfare changes, he said guidelines on financial and social policy needed to be fixed soon because of the long lead times for decisions to

take effect. The report "emphatically rejected" any idea of weakening the Maastricht criteria to facilitate the start of the European single currency on the planned date of January 1, 1999.

In a passage of importance for the UK, it stressed that all criteria - including that requiring two years' membership of the exchange rate mechanism of the European Monetary System - should be considered of equal importance.

While admitting that Germany had got off to a bad start in 1996 because

of the harsh winter and that growth for the whole year would be modest, the central bank said the prospect of an economic recovery in the second half "had moved a bit nearer" in recent times.

The Bundesbank said outlook for an upturn in exports was "altogether favourable". Germany's visible trade surplus, which nearly reached DM100bn (\$65.7bn) last year, had returned to pre-unification levels, while last year's sharp appreciation of the D-Mark had largely reversed itself.

EUROPEAN NEWS DIGEST

Rise in German insolvencies

The number of corporate insolvencies in Germany in January rose 13.3 per cent from a year earlier, while the Ifo research institute said demand in the manufacturing industry in March was "weak" and the general situation in the sector had worsened from February.

Germany's federal statistics office reported yesterday that insolvencies rose to a total of 1,883, following December's 10 per cent year-on-year rise in corporate insolvencies to 2,174.

Ifo said in its March economic survey that capacity utilisation fell to 81.9 per cent in the first quarter from 84 per cent at the end of December. Orders on hand in March were equivalent to 2.7 months of production, compared to 2.5 months at the end of December. Ifo said there was an increase in the number of companies which regard the level of outstanding orders as too low.

Companies were more pessimistic about the general outlook for the next six months and less confident about export prospects. Companies in some sectors remain just as sceptical about business prospects as in February, the research institute said.

Italy's poll winner sees rate cut

Mr Walter Veltroni, deputy leader of the Olive Tree alliance which won the Italian general elections, said he foresaw a cut in the Italian discount rate of at least 1 per cent within the next few months.

In an interview with the weekly news magazine, Panorama, Mr Veltroni said the cut would mean an extra 1.20 (0.008) (\$12.8m) would be available to get the Italian economy "in motion".

Meanwhile, Mr Paolo Garonna, director general of the Italian statistics bureau, said any rate cuts would have to wait until the government's mid-budget, due by May 15, and the reactions of the financial markets.

"If the financial markets welcome the new centre-left government's fiscal and economic programme, the lira will be strong enough to make possible a re-entry into the European exchange rate mechanism," Mr Garonna said.

EU requires belts on buses

The European Union has agreed that new coaches and mini-buses will have to fit seat belts for all passengers. The decision was taken on Tuesday after EU officials hammered out a deal on phase-in dates for new rules.

From 1998, all new designs of mini-bus will have to have three-point seat belts, officials said. All designs would have to comply by 2001. Between those two dates, vehicles approved beforehand will continue to be sold. For medium-sized and large coaches, the agreement is for two-point belts and energy-absorbing seats for new vehicle types from 1997 and for all new vehicles from 1999.

French growth revised down

France's gross domestic product in 1995 grew 2.2 per cent, revised down from a preliminary estimate of 2.4 per cent, the national statistics bureau, Insee, reported yesterday.

The country's fourth-quarter GDP shrank 0.4 per cent, a steeper decline than the 0.3 per cent estimated earlier. Insee also revised second- and third-quarter 1995 growth to 0.1 per cent for each quarter, from 0.2 per cent. First-quarter growth was left unchanged at 0.7 per cent. Mr Alain Lamassouire, budget minister, blamed the downward revisions on the national strikes late last year.

German workplace consensus 'has failed'

By Wolfgang Münchau in Cologne

The German model of consensus in industrial relations has failed, and the country faces an exodus of industry unless it embraces painful change, according to the head of Germany's main industry body.

In an interview, Mr Hans-Olaf Henkel, president of the Federation of German Industry (BDI), said the German trade union movement was facing terminal decline, and suggested that Germany would move increasingly towards an Anglo-Saxon style emphasis on individual self-reliance.

His blunt and harsh critique of Germany's consensus-based industrial system and welfare state came as Chancellor Helmut Kohl, employers and unions prepared for Tuesday's tripartite talks on welfare reform which broke up in mutual recriminations.

Mr Henkel said public sympathy for an all-

iance for jobs - proposed by unions as a trade-off between pay restraint and job creation - "corresponds to the desire among Germans to generate jobs by means of round-table discussions, by putting arms around each others' shoulders, by signing papers, instead of swallowing bitter medicine. The public is being conned into

Industry chief: 'The public is being conned into believing that employment can be generated through alliances'

believing that employment can be generated through alliances and fiddling with symptoms," he said. If the government continued to seek union approval for the welfare reform agenda, it would fail to meet its target to cut unemployment in half by the end of the decade "and the employers will have no choice but to do what they did in the last few years. We will

take with our feet, and go abroad." The German consensus model had worked well for 40 years, but was not working at the moment, as it has resulted in growing unemployment. "This model is on trial not only because of its results but also because other countries have achieved similar levels of social

peace and political stability. Today, there are no strikes in Great Britain, nor in most other countries."

He also criticised the German tendency "to do everything exactly the same in every part of the country", such as the restrictive laws on shopping hours, which apply uniformly throughout the country, and industry-wide wage contracts,

which take little account of regional variations and the profitability of individual companies.

Mr Henkel said trade unions were "in decline throughout the world". One reason was the changing perception of the role of the individual in society. "People want less co-determination or determination by others. They want self-determination, and I believe that freedom is increasing in western democracies."

Like other employers and a growing number of politicians, he expressed deep concern about the prevalence of risk-aversion in a country where jobs in the civil service are widely seen as preferable to jobs in industry.

"These are the consequences of a complete and utter social saturation of our working population, which the unions and a generation of welfare politicians have created. Without this security, we would have more pioneers and risk takers, as we had after the war," he said.

Nato bans flights by Bosnian army

The Nato-led peace force has grounded all Bosnian government flights until further notice after unauthorised aircraft did a flypast during a military parade last Sunday, a force spokesman announced yesterday, AP reports from Sarajevo.

Nato has controlled Bosnian airspace since a no-fly zone was imposed in the summer of 1992.

After the ceasefire took effect in October last year, Nato allowed the parties to carry on non-military flights but those have to be approved by Nato 72 hours in advance, while the peace force makes random checks on passengers

and cargo. The Bosnian army on Sunday flew two helicopters and two light fixed-wing aircraft without prior authorisation during the parade in Bihaq in north-western Bosnia. Major Simon Haselock, spokesman for the peace force, said that "as a result of these breaches" the commander of the Nato ground forces in Bosnia, Lieutenant General Sir Michael Walker, had banned all Bosnian government flights. In last Sunday's incident, the Bosnian army drove tanks, artillery pieces, armoured vehicles through Bihaq. Major Haselock said the peace force remained worried by "potential hostile rallies".



Sarajevo celebrated a Muslim religious holiday yesterday when sheep were slaughtered and the meat distributed to the poor

NEWS: THE AMERICAS

Landmark bill passes US Senate

Healthcare reform starts to take shape

By Jurek Martin in Washington

The health insurance bill passed by the US Senate on Tuesday may be the country's largest medical reform measure of the last 30 years - but its progress into the statute books is far from assured.

Significant differences exist between the bills passed by both chambers of Congress and President Bill Clinton is poised to veto any compromise legislation that emerges from the joint conference committee which includes controversial provisions approved by the House.

Even the composition of the conference committee was a matter of dispute yesterday. Moderate Republicans and Democrats on the Senate labour committee temporarily blocked a move by Senator Bob Dole, the majority leader, to weight Senate representation on the panel in favour of conservative members from the finance committee.

The Senate bill, co-sponsored by Senators Edward Kennedy, the Democrat from Massachusetts, and Nancy Kassebaum, the Kansas Republican, was eventually passed by an unusual 100-0 vote. But Mrs Kassebaum repeated her warnings that the House of Representatives version was unacceptable to her, while Mr Dole said that aspects of the Senate bill would never get through the House.

The Kennedy-Kassebaum measure is a pale shadow of Mr Clinton's failed healthcare proposals of 1993-94, which the president has recently admitted were too complex. Nevertheless, it constitutes the first substantial reform of any part of the health insurance regime since the creation of Medicare and Medicaid, covering the elderly and the poor, in the mid-1960s.

Their bill would make insurance more portable from job to job and sharply limit exclu-

sions from coverage for those with existing medical conditions - both features of the House bill. It would gradually increase tax deductibility for the self-employed from 30 to 80 per cent of premium costs.

But it would also require insurers to provide coverage for mental illnesses comparable to that available for physical ailments. Senator Pete Domenici, the Republican from New Mexico, captured the mood of the Senate precisely when he said that existing low coverage for mental illness was "one of the real continuing injustices in America today".

Senators Dole, Kennedy and Kassebaum - as well as much of the insurance industry - believe, however, that this would inevitably lead to a steep increase in premiums and thus might persuade companies to stop offering insurance to their employees.

The House version includes the creation of medical savings accounts (MSAs) and places limits on malpractice lawsuits against doctors and hospitals, both rejected by the Senate, partly for political reasons but mostly in order to keep its bill as uncomplicated as its co-sponsors wanted. Mr Clinton has said that he will veto any final bill that includes either.

MSAs would enable healthy people to set aside funds for future medical problems in special tax-deferred accounts. Its critics claim this favours the rich and could also lead to an increase in general premiums if the insurance pool were stripped of those making few medical claims.

Neither bill addresses the problem of the uninsured, a central plank in the Clinton proposals. These were estimated at 37m people two years ago and now probably exceed 40m. As Mr Kennedy told the Senate: "This legislation is not comprehensive health reform... but it is proof positive that progress is again possible."

Celebrities bid for a piece of Camelot

When Americans clear junk from their attics they hold a "garage sale".

But when a former First Lady's children have estate taxes to pay, Sotheby's is hired to stage an event of unparalleled vulgarity. Primly described by the mid-established auction house as "the sale of art and objects from the estate of the late Jacqueline Kennedy Onassis", it has been dubbed the most expensive garage sale in history.

Wisely, John F Kennedy Jr and Caroline Kennedy Schlosser were not in attendance when the auction of their mother's possessions began on Tuesday evening. Evan New York magazine, a publication not noted for delicacy of feeling, likened the sale to "going

Maggie Urry reports from New York on sale of Jackie's trinkets

through the poor woman's underwear drawer". A fleet of black stretch limos deposited rhinestone-spangled celebrity bidders outside Sotheby's New York auction house on Manhattan's Upper East Side for the event.

Once inside, buyers fought to pay well over the odds for Jackie's silver-cased Tiffany tape measure, John Jr's high chair, and the now stained and torn footstool little Caroline once used to climb on to the window seat at the White House.

Victors emerged, some, like Joao Elvers, the talk show hostess, displaying their spoils to the CNN camera positioned

under a canopy outside. As lot after lot sold for many times estimate, the first session of the four-night sale brought in \$4.5m, almost reaching the \$5m at which Sotheby's valued the entire auction - an indication that it totally misjudged the level of public interest.

John F Kennedy's rocking chair, estimated at \$5,000 to \$5,000, sold for \$442,000, before commissioner A humidor given to the president for his inauguration by the comedian Milton Berle was knocked down for \$574,000, more than 200 times its estimate. Mr Martin Shanken, editor of the magazine Cigar Afficionado,

beat off frenzied competition to acquire it.

Actual works of art beat their estimates more modestly. Robert Rauschenberg's "Drawing for President of the USA with Dante" sold for \$244,500, against an expected \$100,000, and John Singer Sargent's "Head of an Arab" only doubled its forecast at \$222,500.

Much of what is on offer is paste and reproduction, and the sort of junk any family collects. Why would anyone pay so much for the jumble on sale at Sotheby's?

First, there is the growing desire to own something that once belonged to someone famous, which has spawned a

market for celebrity possessions. Buyers, perhaps, believe that some of the fame will rub off on them.

In the case of the Kennedy sale, as many of the bidders said, they were buying not just fame, not just Jackie's "good taste", but "a slice of history". The best prices were paid for items which had graced the White House. Things Jackie acquired in her Onassis period were less sought after.

As one older American put it yesterday, you can only understand the outpouring of sentiment, nostalgia and money if you lived through the Kennedys, when the White House became "Camelot".

Then, power and wealth combined with the perfect family. The vigorous young president was going to transform America, with a beautiful wife at his side and the ideal "one of each" children at his knee. The shattering of that image by an assassin's bullet, Jackie's dignity in her grief, the children's presence at the funeral, only added to her iconic power.

There is once again a youngish president installed in the White House, with an attractive-ish wife at his side. But the Clintons have not rekindled the hopes of the early 1960s and Americans still long for Camelot. By buying something from those years, they are trying to recapture the fantasy.

Paraguayan strongman forces president's retreat

There may be no tin-pot dictatorships left in South America, but many Paraguayans yesterday felt their country had confirmed its reputation as a tin-pot democracy when President Juan Carlos Wasmosy caved in to military strongman General Lino Oviedo.

The rebellious general, who earlier this week had threatened a coup d'etat, yesterday stepped down as army chief in return for a presidential promise to appoint him defence minister.

Mr Wasmosy's apparent retreat in the face of military might came despite huge domestic and international support for his earlier decision to sack the general.

In a military ceremony replete with the pomp, strutting and stiff salutes associated with the Latin America of yesterday, Mr Wasmosy accepted Gen Oviedo's resignation. Mr Wasmosy, Paraguay's first elected president in half a century, said the compromise was the only way to avoid "bloodshed and the possible deaths of innocent compatriots".

But even as the president was bear-hugging the general in an army barracks in the outskirts of the capital, Asuncion, angry crowds were gathering in protest outside the presiden-

David Pilling reports from Asuncion on a return to the bad old days of S American politics

tial palace. Many of the same people who on Tuesday had flocked to support Mr Wasmosy in his stand-off with the general yesterday repudiated what they saw as the president's cowardice in missing an historic opportunity to strengthen the country's fledgling democracy.

"Today the people's eyes were opened and they realised that a pact had been made between Oviedo and Wasmosy," said Mr Roberto Aguilar, a campaigner for homeless people.

executive. Little would now stand in the way of the general's ambitions to be elected president in 1998, they said. Some legislators vowed to press for the general to be put on trial and the impeachment of the president.

Prospects of a serious rupture within the governing Colorado party were also raised when Vice-President Angel Roberto Seltzer said he rejected "any solution that signified rewarding an act of rebellion and sedition".

Retired Major Fernando Oviedo, who attended his brother's ceremonial handover of command - an event attended by Mr Cesar Gaviria, secretary general of the Organisation of American States - said Gen Oviedo's campaign for president "has just begun". Maj Oviedo, who was hoping for a post in his brother's future cabinet, said: "We will clean up this country of its bad ways, of contraband, and drug-trafficking and all sorts of murky deeds."

In a farewell speech to his soldiers, Gen Oviedo - wearing a jutting peaked cap that added several inches to his small stature - said "no just or democratic state should underestimate the role of the armed forces."

The dignity of the ceremony



General Oviedo and President Wasmosy in a bear-hug at an army barracks outside the capital yesterday

was undermined when a large, flightless rhea wandered nonchalantly across the parade ground, mingling with soldiers garbed in the red, white and blue of the Paraguayan flag. At one point, quote-hungry journalists stamped the podium only to be greeted by an eerie clicking as nervous young soldiers loaded magazines into their submachine guns.

Although most Paraguayans appear to have rejected the posturing of Gen Oviedo, the populist orator who uses the native Guaraní language in speeches to poor campesinos is not without his supporters.

Defence lifts orders figures

US durable goods orders rose surprisingly in March as strong demand for new aircraft more than made up for weaker new-car orders, the Commerce Department said yesterday. Reuter reports from Washington. But without aircraft and defence-related orders, the report reflected moderate economic growth, according to analysts.

Total new orders for durable goods rose 1.4 per cent to a seasonally adjusted \$16.5bn - in sharp contrast to Wall Street economists' expectations of a 0.3 per cent decline. Orders fell in January and February.

Besides new aircraft, the increase was also fuelled by defence orders, which shot up 73 per cent to \$10.3bn after falling 21.1 per cent in February. It was the biggest monthly rise in defence orders since an 85.3 per cent jump in December 1991.

"The rise was all in defence, otherwise the figures were fairly subdued," said Mr David Sloan, senior economist at consultants IDEA. "There was a rise in transport orders but that was aircraft parts for defence since there's an overlap between defence and transport. The defence rise will be reversed next month."

Mr Vincente Prieto Servain, a corpulent Colorado party official draped in gold jewellery, said excitedly: "Oviedo is the Paraguayan Pope. Remember this fat, ugly man told you he is going to be the next president."

Strike cripples Sri Lankan tea plantations

By Amal Jayasinghe in Colombo

An unprecedented work stoppage has crippled plantations in Sri Lanka, the world's largest exporter of tea, and added to the woes of the country's war-battered economy, trade unions and officials said yesterday.

An estimated 800,000 workers in the tea, rubber and coconut estates are on a strike, demanding a 10.5 per cent wage increase which the government says it cannot afford because the industry is only just recovering from a prolonged slump. The strike will continue until Saturday, when leaders will decide on whether to step up their action.

"A few estates which are doing well may be able to absorb a higher wage," said Mr Mahinda Rajapakse, labour minister. "But the majority are in a bad shape and if we raise wages now, a lot of small holders will have to close down."

Officials said the strike was costing the tea trade \$10m a week but the long-term damage to the image of "Ceylon Tea" and the loss of buyers could be more serious.

The tea bushes grown on mountain slopes in central Sri Lanka must be pruned daily by hand to pick tender, light green leaf buds that go to make top-quality black tea.

"If the crop is neglected for one week, it will take longer to get back to normal," a broker at the Colombo Tea Auctions said. "The quality will suffer and drive buyers to competing markets in India and Kenya."

The strike also underscores the uneasy relations within President Chandrika Kumaratunga's governing coalition. Mr Samayaworthy Thondaman, rural industrial development minister, who heads the powerful Ceylon Workers Congress (CWC), is the leading protagonist.

President Kumaratunga's People's Alliance party has a one-seat majority in the 225-member assembly and that puts a premium on Thondaman's seven CWC legislators.

"Mr Thondaman is holding the government to ransom and in the process digging the grave for the entire country," a bitter tea trade official said.

The CWC, however, said it was demanding only what had already been granted to workers in other sectors. Tea pluckers are currently paid \$1.37 a day, slightly less than a junior civil servant.

"The strike is a tremendous success," CWC spokesman Mr P. Anthonyuttu said.

But it is seen by financial analysts as a double blow to the country's foreign investment prospects.

Labour unrest comes hot on the heels of stepped-up Tamil rebel attacks against economic targets in the capital, Colombo.

Less than two weeks ago, the Tamil Tigers tried to bomb Colombo harbour. The guerrillas, however, caused widespread concern with the bombing of the Central Bank on January 31, killing 91 people.

The tea and rubber plantations, which account for about a quarter of the country's total exports, are being put up for sale under the government's ambitious privatisation programme, which hopes to attract foreign investors.

The government hopes to earn \$420m in total from the sale of state assets such as telecoms, national airlines and the plantations, and the money is to finance the budget deficit this year.

Any shortfall will further widen the deficit, which in last November's budget was forecast to reach 9 per cent of gross domestic product for 1996.

A severe drought and electricity shortages have also added to the headaches of the government.

The defence budget, estimated at \$670m for 1996, is threatening to go up with the escalation of fighting between government forces and Tamil Tigers.

The war effort against the Tamil Tigers in 1995 absorbed \$640m, or nearly a 10th of government revenue. With the fighting causing more deaths every day, the tiny Colombo Stock Exchange has been seeing a steady decline.

"The market seems indifferent to the tea strike or any other development," senior broker Mr Elton Ebert said. "The market is so depressed it is difficult for it to go down any more."

Timing Japan's interest rate rise

Gerard Baker on false noises and real signs for monetary authorities

The world's leading finance ministers generally try to avoid giving each other public instructions about how they should be conducting their national monetary policies. The spring meetings of the Group of Seven finance ministers and the International Monetary Fund are usually treated instead as an opportunity to present an image of orderly co-ordination of policy among friends.

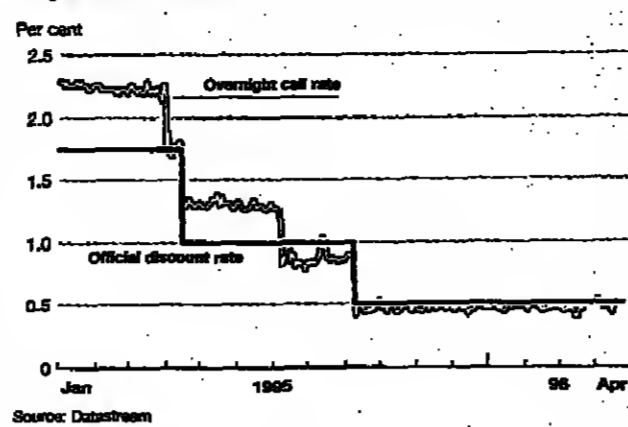
It was with slight irritation, then, that last weekend the Japanese authorities attending this year's G7/IMF meeting in Washington received the stern admonitions of Mr Robert Rubin about the future course of Japanese policy. The US Treasury secretary voiced concern at the prospect that Japan might be about to end its long period of monetary accommodation and move to raise interest rates.

"Prospects in Japan have improved since we last met... But risks remain, and an early tightening of policy could undermine the recovery," he said.

Though they quickly played down any suggestion of a rift, Mr Wataru Kubo, the finance minister, and Mr Yasuo Mutsushita, the governor of the Bank of Japan, know very well that Mr Rubin was consciously adding to the pressure on them as they approach a critical stage in their deliberations on interest rate policy.

Mr Rubin's worries are understandable. Japan's record-breaking monetary easing of the last year has proved an undisputed blessing not just for Japan, but for the whole world. Since the official discount rate was cut to an all-time low of 0.5 per cent last September, the Japanese economy has at last broken free of the recessionary grip that had held it for four years. Output growth in the fourth quarter of

Japanese rates: unorthodox manoeuvres



last year was an annualised 3.6 per cent and is expected to remain above 2.5 per cent.

As Japan's markets have gradually opened up, that improvement has translated much more fluently into increased Japanese demand for world output.

And the same low interest rates have also benefited financial markets. The Bank of Japan's injections of liquidity aimed at keeping rates low have contributed to the dollar's sharp rise in the last six months and have even assisted overseas bond markets. A change in policy now would threaten both real economic performance and the stability of global capital flows.

But for some weeks, Japan's policy makers have been issuing dark hints about the need for an increase in interest rates. Just last week, days before the Washington meetings, Mr Mutsushita again mused publicly that low interest rates had been one of the main causes of the asset price inflation of the "bubble" economy in the 1980s - a mistake, he suggested, that would not be made again.

Is the largesse about to end? Monetary indicators certainly point in that direction. Narrow money supply is growing at an annual rate of 16 per cent, though broader money growth is much slower. And with the stock market rising fast, Mr Mutsushita's reminder about the policy errors that led to the bubble economy appears timely. The bond market is discounting, cautiously, a rise in Japanese interest rates, perhaps within weeks.

This still looks premature. Though the economy is gradually recovering, inflationary pressures remain mild. The recession was so deep that the decline in production has opened up a huge gap between Japan's actual output and its potential output - estimated by the Organisation for Economic Co-operation and Development to be at about 4 per cent of gross domestic product. This suggests the economy could grow for some years at current rates without the risk of re-igniting inflation.

An additional constraint on policy will be the tightening of fiscal policy that is likely to take place over the next year or so. As the government looks to restore its finances, it will want to use low interest rates to compensate for

the reduction in demand. Then, of course, there is the perennial financial problem. Low interest rates have helped the banks offload a large chunk of their bad loans, but their condition is still fragile, and they continue to need as much help as the authorities can provide.

None of this, however, necessarily rules out a technical monetary tightening in the next few months.

For a year, the central bank has been doing something unusual in the country's money markets: it has been deliberately holding call money lending rates below the normally base level official discount rate. The reason for the unorthodox manoeuvre has been the financial emergency the country has been experiencing. The Japanese financial authorities have been on red alert for serious liquidity problems at some of the smaller banks, several of which have already collapsed. Holding the call rate below the official rate provides a quick channel for cheap, emergency lending to the less liquid institutions.

When the authorities decide that the immediate threat to the system has passed they will nudge rates gently back to normality, and allow the call rate to drift back above the official discount rate.

That should not be construed as an official monetary tightening, however, more of a technical adjustment in recognition of the more stable condition of the financial sector. A rise in the official discount rate, which will mark the genuine start of the upward phase of the interest rate cycle, will not follow until the Bank and the finance ministry are convinced that the recovery is set fair.

Then it will be their judgment, not ministry remarks by foreign governments, that will determine the timing.

Canberra determined on Telstra sale

By Nikki Tait in Sydney

Australia's new conservative government yesterday made clear its determination to push through legislation to allow partial privatisation of Telstra, the large government-owned telecommunications group, warning it would extend parliamentary sittings if necessary.

Legislation to permit the sale of one-third of Telstra's equity - which could raise around

\$58bn (US\$6.2bn) for the government - is likely to be one of the biggest parliamentary battles faced by the new administration when parliament reconvenes on Monday after the March 2.

While the Liberal-National coalition has a huge majority in the lower house, it does not command a majority in the Senate. The balance of power is held there by two minor parties - who oppose the Telstra sale - and one independent.

Yesterday, Senator Robert Hill, the government's leader in the Senate, wrote to all senators warning that the coalition intended to get the bill passed during the next session, which is due to run from April 23 to June 27.

"This might well require sitting weeks beyond the end of June. The government will be seeking such extra sitting weeks as are necessary to achieve its objective," he said.

The timing of the sale - which if completed in a single tranche would be much bigger than any previous sell-off - is delicate. Australia has been moving towards a deregulated telecommunications market, and Telstra's former monopoly position has already been eroded in the long-distance and cellular markets. Optus, its principal competitor, is due to start offering local telephony services shortly, via Optus Vision, its cable associate.

ASIA-PACIFIC NEWS DIGEST

Car output falls in Japan

The declining role of Japan as the world's manufacturing base for vehicles was underlined yesterday, with industry statistics indicating that domestic vehicle production declined last year for the fifth consecutive year.

The Japan Automobile Manufacturers' Association said that last year vehicle production in Japan dropped 5 per cent to 10.1m units. This is the first time in the industry's history that production has fallen five years in a row. Production in March was down 11 per cent month-on-month to 983,945 units, the association noted.

The decline reflects the ongoing shift of manufacturing overseas by Japanese carmakers. As they face pressure from a high yen, trade friction and the growing need to compete globally for markets, Japanese carmakers have stepped up production in regional markets. *Michio Nakamoto, Tokyo*

Optimism on China growth

China's economic growth this year is expected to exceed the target of 8 per cent and range closer to last year's 10.2 per cent GDP increase, according to the "1996 Financial Outlook" released by the People's Bank. The bank also expressed cautious optimism about China achieving its target of a 10 per cent increase in retail price inflation compared with 14.5 per cent in 1995.

The forecast predicts a narrowing of China's trade surplus, which reached \$16.6bn last year, according to Chinese customs statistics. In the first quarter of this year exports were down 8.7 per cent and imports up 23.2 per cent compared with the same period last year. *Tony Walker, Beijing*

Australian wage inflation slows

Australia's rate of wage growth slowed in February, lifting hopes that Australia could avoid a rise in interest rates in the short term and could even move towards a rate cut.

Yesterday's figures showed average weekly earnings rising 0.4 per cent in the February quarter, to give year-on-year rate of wage inflation of 4.5 per cent. Private-sector economists had expected a figure near 5 per cent.

Meanwhile, Australia's federal department of employment announced it would cut 1,285 jobs, or about 8 per cent of the total, as part of the new coalition government's drive to reduce the budget deficit. *Nikki Tait, Sydney*

Aum cult leader starts trial

Mr Shoko Asahara, the religious cult leader, yesterday returned to the centre of Japanese attention on the hotly awaited first day of his trial on 17 charges of murder, attempted murder and illegal drug production.

Tokyo has not seen such heavy security since the day, last May, when Mr Asahara terrorised the capital's citizens by prophesying a second gas attack.

To the charges, Mr Asahara made no reply, beyond a brief speech in which he said he cared nothing for the pain resulting from his mission to bring his followers to "absolute freedom, absolute happiness and absolute joy."

The trial, which could last up to 10 years including appeals, continues today. *William Dawkins, Tokyo*

Pepsi Cola bows out of Burma

Pepsi Cola, the US drinks group, is to sell its 40 per cent stake in its joint venture in Rangoon, bowing to pressure in the US over Burma's human rights record.

The chairman of Pepsi Cola Products Myanmar yesterday said that the company would sell its stake to its local partner, under a new agreement the local company will continue to bottle and sell Pepsi and three other soft drinks under licence from the American company for at least five years.

Pepsi Cola's joint venture accounts for 85 per cent of the 6m cases of soft drink sold in Burma; by contrast it controls only 41 per cent of the cases sold in neighbouring Thailand. *William Barnes, Bangkok*



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Raising the flag: The Russian flag flies in Tiananmen Square

Yeltsin visit heralds China trade pacts

By Tony Walker in Beijing

Russia's President Boris Yeltsin was entertained at a lavish banquet in Beijing's Great Hall of the People last night at the start of a three-day visit to China during which more than a dozen trade and other agreements will be initiated.

These will include a feasibility study of a gas pipeline from Siberia to the Yellow sea, reaffirmation of an agreement negotiated in 1993 for a nuclear power project, and an agreement covering intellectual property rights.

Mr Viktor Mikhailov, Russia's nuclear energy minister, accompanying Mr Yeltsin, said bagging over price for twin 1,000MW pressurised water reactors was holding up a final deal. The project in north-east Liaoning Province is expected to cost \$4bn for the first phase.

Mr Yeltsin will push Russia's claims to be involved in building China's \$30bn Three Gorges project which aims to harness the water of the Yangtze for power generation. A Russian consortium has been formed to bid on supply of turbine generators.

Other agreements and protocols to be signed include those aimed at facilitating trade, improving co-ordination in combating organised crime, and extending co-operation in environment protection along the 4,200km common frontier of the two countries.

Mr Yeltsin is also due to initiate a framework agreement for security consultations with the leaders of China and three Central Asian republics - Tajikistan, Kyrgyzstan and Kazakhstan. The signing of the agreement will be conducted in Shanghai on Friday.

Mongolia aims to capitalise on its reforms

By Peter Montagnon, Asia Editor, in London

There is an old Mongolian saying about hardship says the country's President Punsalmaa Ochiibat. If it is quick and sharp, then even longer happiness will follow.

In London on an investment mission yesterday, he argued his country was finally on the verge of long happiness after several traumatic years of economic reform. Last year's 6.5 per cent growth was almost respectable even by the demanding standards of Asia.

Moving from communism to a free market economy was never going to be easy despite Mongolia's rich endowment in natural resources, Mr Ochiibat said. But that did not mean it was wrong to move speedily on reform after the breakdown of communism in 1981.

Initially, living standards collapsed, creating serious and still unresolved social problems, including a sharp rise in unemployment and homelessness, especially among young children. In the worst year of 1992, the economy contracted by 25 per cent and inflation soared to 225 per cent.

But Mr Ochiibat said the economy was now recovering. Capital investment rose 25 per cent to \$180m last year. Industrial output was up nearly 21 per cent. Inflation is officially forecast to fall to 35 per cent this year from 53 per cent in 1995, and businessmen say about 50 mining companies are looking at ways of exploiting large deposits of gold, molybdenum and copper.

The improving economy would create scope for dealing with some social problems, Mr Ochiibat added. But it was a sign that Mongolia, the first Asian country to espouse communism and the first to reject it, was well ahead in its process of transition.

Democracy, too, was taking firmer hold, with a multi-party system enshrined in the constitution. The president, who leans to the left-wing opposition Mongolian Social Democratic party, has cohabited reasonably comfortably with a government formed by the conservative Mongolian People's Revolutionary Party (MPRP).

The latter is expected to win the general election due on June 30, when the government's term expires. Mr Ochiibat remains favourite for the presidential election in 1997.

Not all difficulties were over, he said. Inflation is too high and Mongolia has to renegotiate its rouble debt with Russia. Agreement was close on this, he said. Businessmen say the biggest obstacles remain the shortage of infrastructure and electric power.

With a population of 2.5m and over 28m head of livestock, Mongolia has an even bigger ratio of animals to people than New Zealand. With such a low population it could also become rich like Kuwait if it could exploit its mineral resources.

But it is three times the size of France, with few paved roads. Energy is scarce, as is money for infrastructure. Oil companies are prospecting; Mr Ochiibat is "optimistic" Mongolia will soon have its own oil products. Only if that really happened would a long period of happiness be guaranteed.

	1990	1992	1994	1995
Exports (\$USm)	880.7	388.4	367.5	571.2
GDP growth (%)	-2.5	-9.5	2.3	6.3
Inflation (%)		225.8	63.2	35.0
Unemployment (000)		54.0	74.9	45.1
Total foreign aid (\$USm)	174	200.4	182.8	288.5

Source: Mongolian government

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Car output falls in Japan
China growth
wage inflation
starts the
out of
Mongolia aim to capitalise on its reform

NEWS: WORLD TRADE

Airbus likely to partner China on new 100-seat jet project

By Michael Skapinker in Toulouse
Airbus Industrie, the aircraft manufacturing consortium, has emerged as the likely co-ordinator to help China build a 100-seat jet. Mr Jean Pierson, Airbus managing director, said yesterday.

Aero International Regional, a joint venture between Aérospatiale of France, British Aerospace and Alenia of Italy.
China has also indicated, however, that it would like Daimler-Benz Aerospace (Dasa) of Germany to be involved in the project.
Dasa is a leading member of Airbus but is not part of the European 100-seat jet project.
Instead, it submitted its own proposals for a 100-seater to the Chinese which would have involved

Fokker, the Dutch manufacturer in which Dasa had a majority stake, helping to assemble the aircraft.
Mr Pierson said yesterday, however, that Fokker's financial collapse had changed the situation, allowing the Europeans to draw Dasa into their project.
Dasa has said that it wants Airbus to supervise the project.
Mr Pierson said: "That's probably what will happen. The Chinese want Airbus involved. Probably we will find a way in Europe to

give the Chinese what they want." Aérospatiale and British Aerospace are also shareholders in Airbus, although Alenia is not.
The Airbus partners have said, however, that they would be happy to see Alenia becoming more involved in individual Airbus projects.
Mr Pierson also said that the proposed changes in the structure of Airbus could result in the loss of up to 20 per cent of white-collar jobs in the partner companies' Airbus subsidiaries.

However, he said that the committee investigating the restructuring of the consortium was likely to present a range of options rather than simply suggesting that the European consortium becomes a profit-making company.
Mr Pierson said that while the four companies that own Airbus were all committed to change, it would be impossible for the consortium to move immediately to being a listed company.
The committee, under the leader-

ship of Mr Edzard Reuter, former chairman of Daimler-Benz, will report at the end of June on whether Airbus should abandon its status as a Groupement d'Intérêt Economique.
As a GIE, Airbus makes no profits or losses in its own right.
These accrue to its shareholders - Aérospatiale and Dasa which each own 37.9 per cent, British Aerospace which has 20 per cent and Casa of Spain which has 4.3 per cent.
Mr Pierson said that the Reuter

committee would not necessarily recommend that the GIE structure be abandoned entirely.
He said that it could either recommend that Airbus become a limited company or that it changed the way it operates while remaining a GIE.
He said it would be difficult to bring in outside investors immediately.
If Airbus became a limited company it would initially be owned by its existing shareholders.

WORLD TRADE NEWS DIGEST

Sino-British shipping pact

China and Britain have reached a maritime agreement which is expected to increase trading opportunities for UK shipping lines in China and the Far East. The accord will end discriminatory fees at Chinese ports, providing a big saving for larger container vessels.
Britain does not normally sign bilateral agreements of this type and only has shipping accords with the former Soviet Union and South Korea. But China places great emphasis on shipping agreements. It has signed them with 46 countries, including Germany, France and the Netherlands. These deals were increasingly placing British lines at a competitive disadvantage.

UK shipping lines will be permitted to open branch offices in China and to market their own services. They will gain access to Chinese cargoes and Chinese ports on the same basis as other foreign lines and administrative formalities will be clarified.
Charles Batchelor, Transport Correspondent

India steps up export of gems

India's gem and jewellery industry had a record year for exports in 1995-96. The \$4.7bn figure, up 15.8 per cent on sales of \$4.1bn a year earlier, represented almost a fifth of the country's total foreign exchange earnings for the year, according to figures from the Gem and Jewellery Export Promotion Council.
Diamond exports worth \$4.7bn accounted for 86 per cent of all exports from the sector, sustaining India's position as one of the world's leading exporters of small, cut diamonds. Cheap labour has led to the growth - notably in western Indian states - of companies specialising in the cutting and polishing of small gemstones for use in lower priced jewellery.

Most rough stones are imported to India, through De Beers in the UK, and the council said the diamond sector's exports were worth \$1.4bn more than imports in 1995-96, a rise of 15.2 per cent on a year earlier.
Exports of gold jewellery rose by 16.8 per cent to \$577m. This was well below the target of \$625m, and was blamed by the council on impediments in the import of coloured stones and "erratic" gold supplies. However, finished jewellery exports are expected to increase further in the next few years as several of India's biggest diamond cutting houses shift towards designing and manufacturing their own finished products.
Mark Nicholson, New Delhi

EBRD loan to save port

The European Bank for Reconstruction and Development is leading \$50m to Kazakhstan to rescue its only large port, Aktau, from flooding by the rising Caspian Sea.
The loan, the bank's first long-term credit to the country, will finance construction of a new 400 metre quay wall, two metres higher than the existing one. The bank said its funding should also pay for upgrading and replacement of the port's millities, which have been damaged by flooding. This should enable the port to handle smaller commercial loads as well as large-scale commodity cargo.

The port is key to Kazakhstan's plans to increase oil exports by tanker, as an alternative to the restricted Russian pipeline network. Kazakhstan is negotiating with Iran for oil deliveries that could be swapped for Iranian oil at the Gulf, and might deliver oil to a future pipeline that would link Azerbaijan's oil fields to ports in Turkey. The EBRD loan is tied to a commitment by the Kazakh government to spend an extra \$20m on the port.
Sander Thoenes, Алматы

AlliedSignal in China ventures

AlliedSignal, the US automotive-to-aerospace multinational, has formed two joint ventures with a Chinese partner to produce industrial polyester fabric and fibres, for use mainly in motor vehicles. It will have operational control of both ventures with Kaiping Polyester Enterprise.

Kaiping, one of China's largest chemical fibre companies, has annual sales around \$400m. AlliedSignal gave no clue to the size of its investment but will take a 70 per cent interest in existing Kaiping production facilities in Guangdong province, some 125 miles from Hong Kong.
John Griffiths

WTO close to deal on telecoms liberalisation

By Frances Williams in Geneva and Guy de Jonquieres in Singapore

Hopes grew yesterday that World Trade Organisation negotiators will reach a deal on liberalising the world's \$610bn-a-year telecommunications market by Tuesday's deadline.
In Geneva, trade officials said there had been a flurry of new and improved offers in the past few days, with indications of more to come. Meanwhile, negotiators yesterday approved regulatory guidelines outlawing anti-competitive practices by dominant carriers that will underpin moves to open telecoms markets to foreign companies.

"I'm optimistic," said Mr Neil McMillan, the British official chairing the talks. "Time is short but there's a good chance of a deal."
Most negotiators expect the 52-nation talks to continue

right up to the deadline. The European Union may call an emergency council of ministers in Geneva on Monday to endorse any final improvements in its liberalisation offer. These are expected to centre on relaxing foreign ownership restrictions in France, Belgium, Spain and Portugal. In the past few days Argentina, Morocco, Thailand and Pakistan have tabled offers, bringing the total to 30, including the 15-nation EU. Colombia and Iceland are expected to do so shortly. Trade diplomats said they hoped the offer by Pakistan would encourage India to follow suit, despite the uncertainty caused by its general election next week.

Others are working on improved proposals, including Mexico, South Korea and all four members of the Quad group of leading traders - the US, the EU, Japan and Canada - following their talks in Kobe,

The European Union yesterday blocked moves to obtain a World Trade Organisation dispute panel ruling on charges by the US and four Latin American banana producers that its banana import regime violates fair trade rules, writes Frances Williams in Geneva.

Brussels says consultations are continuing on the long-running dispute with the US, Guatemala, Ecuador, Honduras and Mexico. Under WTO procedures a panel must be established at the second time of asking, expected to be at the next meeting of the WTO's dispute settlement body on May 8. The EU operates a quota system for bananas that favours former colonies in Africa, the Caribbean and the Pacific at the expense of so-called "dollar" bananas from Latin America, where US companies such as Dole and Chiquita have big investments.
Two panels set up under Gatt, the WTO's predecessor, ruled against Brussels but the findings could not be enforced under Gatt's weaker dispute settlement rules.

Japan, last weekend.

Adding to the optimism was yesterday's announcement by Singapore that it would end its telecoms monopoly in 2002, five years ahead of schedule.
Sir Leon Brittan, Europe's trade commissioner, in Singapore for a world trade conference, said the announcement

would "certainly act as a catalyst" for movement by other Asian governments, while Mr Jeff Lang, the chief US negotiator, hoped they would now find it easier to make fresh offers.
Mr Lang reinforced the positive mood by saying he was now starting to discern the outline of a deal involving the

"critical mass" of countries which Washington has said must participate if the US is to keep its own negotiating offer on the table. However, he stressed that this critical mass had not yet been achieved.
Singapore's decision, announced by Mr Go Chok Tong, its prime minister, is particularly important because the negotiating stance of east Asian economies is now emerging as one of the most crucial issues in the talks.
Both Sir Leon and Mr Lang have made intensive high-level efforts in the past few days to persuade them to move. Sir Leon, who visited Indonesia earlier this week, said he had been given "indications but not promises" that it would adopt a more flexible stance.
In Geneva, Quad trade officials were said to be near agreement yesterday on ways of curbing "free-riding" on international networks that

would ensure the full inclusion of international as well as domestic services in the telecoms accord. The discussions centre on the conditions under which international lines could be leased for resale.
Washington had suggested that international services might be excluded from any agreement or liberalisation delayed to prevent monopoly operators at one end of the international connection taking unfair advantage of cheap rates offered at the other end.
However, negotiators also warned yesterday that an apparent attempt by the US to restrict competition in its emerging market for satellite personal communications systems could pose an eleven-hour obstacle in the talks.
The companies involved - Iridium, Globalstar and Teledesic - say the curbs are needed to protect their billion-dollar satellite investments.

WTO chief wants regional groups to wind down external barriers

Ruggiero urges global free trade

By Guy de Jonquieres in Singapore

Mr Renato Ruggiero, director general of the World Trade Organisation, yesterday urged regional economic groupings to aim for the creation of a global free trade area by moving to abolish all their barriers to trade with non-members.

"We have to work from now on in order to be sure that "big" regionalism and the multilateral system will converge, so that at the end of the process we will have one global free trade area," he told a world trade conference in Singapore.

Mr Ruggiero said that unless regional groupings accepted that objective, the world would be divided in 20 years' time into two or three intercontinental blocs, each with its own rules and internal free trade but with external barriers against the rest of the world.
"I leave you to imagine the consequences of this vision in terms of economic and political equilibrium. The problem of those who did not fit into any of the blocs would be a serious one," he said.

Mr Ruggiero said it was vital that all regional groupings respect the most favoured nation principle, a keystone of the multilateral trade system which requires countries to deal with all trading partners on the same terms.
However, almost all the more than 100 groups in existence had been granted exceptions from the most favoured

Top ten regional trade groups

- North American Free Trade Agreement (Nafta) - US, Canada and Mexico. Chile next in line to join
- European Free Trade Association (Efta) - Norway, Switzerland, Iceland, Liechtenstein
- European Union (EU) - Ireland, Britain, France, Germany, Italy, Spain, Portugal, Finland, Sweden, Denmark, Luxembourg, Belgium, the Netherlands, Austria, Greece
- Asian Free Trade Area (Afta) - Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand
- Asia-Pacific Economic Co-operation (Apec) - Australia, Brunei, Malaysia, Singapore, Thailand, New Zealand, Papua New Guinea, Indonesia, the Philippines, Taiwan, Hong Kong, Japan, South Korea, China, Canada, US, Mexico, Chile
- Mercosur - Brazil, Argentina, Paraguay and Uruguay
- Southern African Development Community (SADC) - Angola, Botswana, Lesotho, Malawi, Mozambique, Mauritius, Namibia, South Africa, Swaziland, Tanzania, Swaziland, Zimbabwe
- West African Economic and Monetary Union (UEMOA) - Ivory Coast, Burkina Faso, Niger, Togo, Senegal, Benin, and Mali
- South Asian Association for Regional Co-operation (SAARC) - India, Pakistan, Sri Lanka, Bangladesh, the Maldives, Bhutan and Nepal
- Andean Pact - Venezuela, Colombia, Ecuador, Peru and Bolivia

nation principle by World Trade Organisation rules.
Mexico and the Asia Pacific Economic Co-operation forum were the only groupings whose members had declared themselves in favour of a policy of "open regionalism".
Japan's trading partners, Page 17

under which internal and external trade barriers were removed at the same rate.
"The possibility of excluding trade groups from MFN obligations was out of date," Mr Ruggiero said. "Today, with the proliferation of regional groupings, the exception could

become the rule, and this would risk changing completely the nature of the system," he said.
Mr Ruggiero said his proposal extended to long-established groups, such as the European Union, as well as new ones. "It would be very hard to imagine that there would be one big regional area, however noble its motivation, which would not participate in a movement to open regionalism and consistency with MFN."
Mr Ruggiero's call received a guarded response from Sir Leon Brittan, the EU trade commissioner. He said regional groupings posed no threat to



Ruggiero: fears split into two or three big trading blocs

China 'needs to clarify stance on entry talks'

By Guy de Jonquieres

Mr Renato Ruggiero, director general of the World Trade Organisation, said yesterday that China needed to clarify its negotiating position on WTO entry by this summer if it wanted to be admitted soon.
He also warned Beijing against treating its accession talks as a political negotiation. He said success of the talks would depend on China meeting the WTO's rules and the demands of all its members, not just of one - a thinly veiled reference to Beijing's repeated complaints that the US is the only real obstacle blocking its entry.

Though Mr Ruggiero said he was offering "personal advice", and emphasised that existing WTO members also needed to negotiate in a positive manner, his remarks are the bluntest he has directed at Beijing.
Trade diplomats meeting in Singapore said they reflected his concern that China had still not fully grasped what was involved in the accession talks, and the need still to resolve a wide range of often technical issues. The diplomats said his message was also intended for Russia, which has also applied to join the WTO.
Mr Ruggiero said that the way in which China responded to requests for answers by the

end of July to detailed questions about its trade policies would be very important to the future of the negotiations.
"If China really wants to improve its chances of quick WTO accession, it has to come to Geneva at the end of July prepared to give the answers and the clarification that members of the organisation have asked about its industrial policies, liberalisation of agriculture and textiles, subsidies and other fields," he said.
"China's active participation in this negotiation with a really constructive and imaginative effort will be a very important element in shortening the negotiation," he said.
China must remember that the negotiations were solely about trade issues and did not involve political matters.
"Though he did not mention the US by name, Mr Ruggiero said: "It is also important to understand that this isn't a negotiation with one partner but reflects the interests of all WTO members, including the developing countries."
He said China needed to make progress both in meeting the demands for improved market access by existing WTO members and in showing its readiness to accept the organisation's basic rules and disciplines.

Poland car investments in confusion zone

Policy divide puts skids under foreign companies, writes Christopher Bobinski

Disputes within the Polish government over tax and customs concessions are delaying a final decision on a \$340m new car factory planned by General Motors of the US.

GM's investment has become a crucial part of the government's strategy towards Silesia in the south-west of the country, one of Europe's most polluted industrial conurbations that faces job losses as sectors such as coal mining and steel are restructured. Under debate is the fiscal framework under which foreign carmakers such as Fiat and Daewoo will be operating as they develop the country into an important regional vehicle producer with an annual output of around 500,000 passenger vehicles, of which a third will be exported.

Mr Klemens Scierski, the industry minister who is backing GM's requests for generous fiscal and customs tariff incentives, is at the centre of the controversy as he pushes the government to grant Special Enterprise Zone status (known by the Polish acronym of SSE) to Gliwice, the town GM favours as a location for its plant.

The SSE, which gives investors full corporate profit tax relief for 10 years and a 50 per cent tax holiday for another

decade, is a new concept. Last year the first SSE was established on the site of the near-northbound aircraft factory at Mielac in south-eastern Poland, and no investor has as yet been approved by the government to take advantage of it.

Next month, however, the cabinet is to be asked by Mr Scierski to approve two more zones. One is in the Suwalki region in the north-east where unemployment is more than twice the national average of 14 per cent. The other in Silesia is to be split into four sub-zones, in Gliwice, Tychy, Zory and Dabrowa Gornicza. Unemployment is lower than the national average but this is set to change once programmes restructuring the area's heavy industries get under way.

"The area is a time bomb," says Mr Tadeusz Soroka, a deputy industry minister and chief government negotiator with GM and other companies. Mr Soroka argues that investors such as GM must be attracted to the area if other foreign-owned projects are to follow and to create desperately needed new jobs.

Meanwhile Mr Grzegorz Kolodko, the finance minister, who is committed to a policy of squeezing the budget deficit from the 2.8 per cent of gross

Locating the tax breaks



domestic product this year to below 2 per cent by the end of the century, is appalled at the implications of granting corporate tax relief for 10 years and setting a precedent other car companies will want to follow.

Initial skirmishing between the finance and industry ministries starts this week at a meeting of the government's lowly subcommittee on regional policy and rural areas which is the first government body to be asked to approve the two new SSEs. However, the significance of the investment to Silesia means that Mr Kolodko's opposition is likely to be overruled and GM will

get its SSE status, which is the most generous set of incentives any foreign manufacturer has had to date.

The decision will, however, come too late for work on the plant to start in the spring as hoped.

A positive decision on GM will mean that Fiat, which three years ago took over the state-owned FSM car plant in Tychy, which produced Fiat vehicles under licence, could soon be asking for similar tax concessions. Indeed its original takeover agreement in 1992 commits the Poles to match any incentives given to subsequent motor industry investors

which are more generous than those granted to Fiat. Also Daewoo, the South Korean industrial conglomerate, which has made commitments to invest \$1.4bn over six years in two former state-owned car plants in Lublin in eastern Poland and in Warsaw, could be the next in line.

Now Fiat's tax concessions are beginning to look meagre compared with the incentives offered by an SSE. Its financial commitment has been substantial on top of its direct investments in FSM worth \$376m it took over the state-owned company's debts totalling \$730m. Now the company says it will be investing a further \$300m by 2002 in the new Pallo car which will also be produced in Poland.

Mr Soroka's expected response to Fiat's protestations is to suggest that they expand their operations into the proposed Tychy SSE which is only a stone's throw away from the FSM plant. Daewoo, in Warsaw and Lublin, is much further from one of the SSEs. However, a Daewoo-owned components manufacturer at Elk is close to the proposed Suwalki SSE in the north-east, providing some opportunity for relief.

But for the finance ministry this smacks too much of the beginning of a move to turn the entire country into one large special enterprise zone with dire consequences for state revenues.

BUSINESSES FOR SALE

REPUBLIC OF PANAMA
NEW DATE ANNOUNCEMENT

Intel
LE COMPTON EN EL ESPANOL

INTERNATIONAL PUBLIC BID
FOR THE SALE OF UP TO 49% OF THE SHARES OF
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TELECOMUNICACIONES S.A. (INTEL, S.A.)
WITH THE RIGHT TO OPERATE THE COMPANY

It is hereby announced that the new date for the presentation of documents for Pre-qualification of merits and background of telecommunications operators interested in participating in the International Public Bid for the sale of up to 49% of the shares of the Instituto Nacional de Telecomunicaciones S.A. (INTEL, S.A.) with the right to operate the company, WILL BE MAY 23, 1996 FROM 10:00 a.m. to 10:59 a.m.

Omedo David Miranda Jr.
Ministry of the Treasury

Juan Ramón Porras
CEO of INTEL, S.A.

سكدا من الأصل

سكنا من الاجل

Little sign of progress towards ceasefire as US secretary of state meets Syrian and Lebanese leaders

US peace shuttle switches to Lebanon

By David Gardner in Beirut and Julian Ozanne in Jerusalem

US secretary of state Warren Christopher's Middle East peace shuttle detoured into Lebanon last night, expanding Washington's efforts to end fighting between Israel and pro-Iranian Hizbollah guerrillas in southern Lebanon, where Israeli forces yesterday continued their two-week-long air and artillery bombardment and the Shia Moslem militia fired Katyusha rockets at northern Israel.

spotlight on the main differences between Israel on the one hand and Lebanon and Syria - the military power in Lebanon - on the other. The US plan, backed by Israel, seeks a deal whereby Hizbollah resistance to the 14-year Israeli occupation of south Lebanon would end. This is unacceptable to Beirut, to Damascus, and to Iran, which gives Hizbollah financial and ideological backing. They prefer a French initiative, which would tighten a US-brokered 1993 agreement whereby Israel and Hizbollah undertook to avoid targeting civilians, and would put eventual Israeli withdrawal from Lebanon on the agenda. French foreign minister Mr Hervé de Charette met Syrian officials in Damascus yesterday, and also held talks with Iranian foreign minister

Ali Akbar Velayati. Mr Walid Jumblatt, the Lebanese Druze leader who is now minister for the displaced in Mr Hariri's government, said: "The Israelis want a truce, but what we want is a ceasefire, so that people can go back to their homes." Mr Christopher said before meeting Mr Assad yesterday that "the time has come to reach a conclusion." The Syrian president on Tuesday night did not receive the US secretary of state, because of what was being presented by both sides yesterday as a thimble problem, but was seen at the time as a smug, and celebrated as such in the regional Arab press. The state department spokesman Mr Nicholas Burns reported progress after the Damascus meeting and said: "I think we will succeed."



Warren Christopher, left, with Syrian foreign minister Farouq al-Shara at Damascus airport yesterday before his delayed meeting with President Assad

France's mediation, however, is getting growing support throughout the Arab world, where even governments which have made peace with Israel like Egypt and Jordan feel Washington has compromised its role as honest broker by pushing for Israeli objectives in an operation which has caused public outrage in the region.

Climate report 'is deficient'

By David Lascelles, Resources Editor

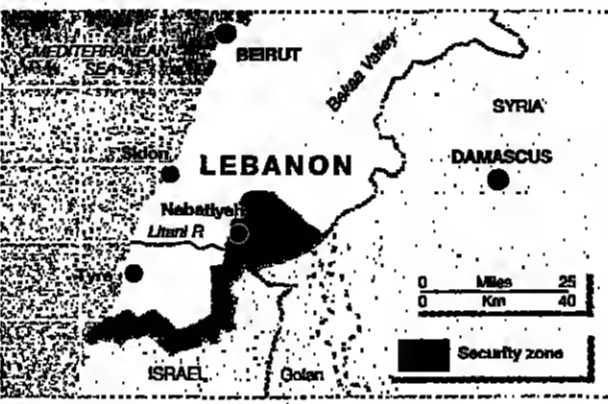
The world energy industry has warned governments not to accept the recommendations of a forthcoming report on global warming because they are based on shaky evidence and could damage economic growth. In a pre-emptive strike ahead of the publication of a detailed set of recommendations by the Intergovernmental Panel on Climate Change, the World Energy Council yesterday described the forthcoming report as deficient and of little value to policymakers. Mr John Baker, chairman of National Power, the UK's largest electricity generator, and chairman of the WEC, said: "It is very disappointing that the impressive international effort mobilised to produce (this report) has resulted in a missed opportunity to help policymakers develop realistic strategies for the possible climate change issue." The IPCC, consisting of leading experts on climate and the environment, was established by governments to advise them on policy to combat global warming. It will be publishing its main conclusions in June calling for urgent action on a wide front to reduce greenhouse gases which are believed to be altering the world's climate. These conclusions will be based on its central finding that there is a discernible human influence on climate. The WEC, which represents the energy industries of more than 100 countries, said in a report issued yesterday that the IPCC's recommendations are unrealistic and influenced by academics seeking to attract funding for their work. Instead, the WEC wants a more "balanced" approach with an emphasis on energy efficiency, conservation, and development of renewable energy forms, all of which are worth pursuing even if global warming turned out to be a false threat, it believes. The WEC's attack is certain to cause a furor among environmentalists who are pressing for action to combat global warming. The timing of the attack, ahead of the report's publication, is also likely to anger governments which are trying to encourage an orderly debate about the policies to be adopted to reduce greenhouse gases.

Hizbollah portraits peer from rubble of Nabatiyeh

David Gardner witnesses the eerie results of Israel's air and artillery bombardment in south Lebanon

Early yesterday, Israel's radio told Lebanese civilians that 22 towns and villages would be targeted on the 14th day of its air and artillery bombardment of south Lebanon. One of them was Nabatiyeh. With a population of 80,000, Nabatiyeh is the de facto capital of predominantly Shia Moslem south Lebanon. Last Thursday, on the day Israeli bowitzers killed more than 100 civilians in the United Nations refugee shelter in Qana, this normally prosperous market town had its own tragedy. Israeli jets fired rockets into the house of Hassan Alayan el-Abed, killing his wife Fawziya and her seven children; the youngest, Nour, was three days old. Mr el-Abed was on a pilgrimage to Mecca. Most of Nabatiyeh's people had fled northwards on April 11, when Israel started its onslaught, supposedly aimed at Hizbollah, the Shia

fundamentalist militia fighting the 14-year Israeli occupation of south Lebanon. But the 155 deaths, many hundreds of injured and 400,000 refugees have almost all been civilians. Last Thursday's deaths sent many more north. Abandoned laundry on washing lines and rotting fruit and vegetables on overturned market stalls was testimony to their hasty departure. The town is eerily empty, shaking under the shells fired in desultory sequence from Israeli positions on surrounding ridges. Near the centre, there is a big memorial portrait of Nabatiyeh's favourite son, the late Hassan Kamel Sabah, a brilliant American-Lebanese electronics inventor. Nearby, the Celtic computer shop has been reduced to matchwood by a 155mm shell. From Celtic's ruins, the propaganda portraits of Hizbollah's sheikhs and "martyrs" - the suicide-bombers it is again threatening



to launch against Israeli occupation forces - seem to stand larger than that of the inventor. Mr Amin Bakhdoud, a 65-year-old restaurateur, is one of the few townspeople still in Nabatiyeh. "If I'm going to die, I shall die here, in my home, in my country," he says. The locals are used to being driven out of their homes: after Israel's 1978 incursion, its 1982 invasion, and withdrawal by 1985 in the face of determined resistance from Shia militias, and its 1993 air blitz. But although sporadic Israeli bombing and shelling had continued in response to Hizbollah attacks, the last two years have seen a construction boom in Nabatiyeh, and indeed in other areas of the south. When Mr Rafik al-Hariri took over as Lebanese prime minister in October 1992, he made the reconstruction of the country after the 1975-90 civil war - in which Israel intervened with the aim of driving the Palestine Liberation Organisation out of Lebanon - his main aim. The people of Nabatiyeh gradually felt enough confidence to join him. A third or more of the town's homes and buildings are either new or under construction. The money comes mostly from Lebanese emigrant businessmen in west Africa, who are predominantly Shia. Remittances like theirs form the bulk of last year's \$6.7bn capital flow into Lebanon, after a similar inflow of \$6.5bn in 1994. It is this diaspora money which pays the import bill for reconstruction - a bill which will rise after Israel's deliberate destruction of reservoirs, water pipelines, power stations and roads in the past two weeks. And, of course, homes. While the bombing continues, it is impossible to know for sure, but the government estimates 60 Shia villages in the south have been obliterated. Government officials and businessmen fear these vital capital inflows will slow to a trickle unless negotiations to end the crisis offer clear guarantees that the cycle of destruction will end once and for all. A Christian businessman, who returned to live in Lebanon four months ago after working in the US and Saudi Arabia throughout Lebanon's wars, summarises it thus: "If people before thought twice about coming back or putting their money in Lebanon, after this they're going to think 10 times."

Power diplomacy is back, says report

The US return to global leadership, the peace deal in Bosnia and the crisis over Taiwan show that old-fashioned power diplomacy is back with a vengeance, according to a report published yesterday. Reuter reports from London. The International Institute for Strategic Studies (IIS) said a new willingness to use or threaten force in support of national goals was emerging after a period of post-Cold War "strategic arthritis". "A striking feature of the year was the tribute paid to the 19th century concept of balance of power," Mr John Chipman, IIS director, told a news conference to launch the institute's annual survey for 1995. After the confusing period following the end of the Cold War, the report said it was becoming clearer that raw power still had a significant role to play in diplomacy. "There is a return to a form of Realpolitik in today's international relations," Mr Chipman said. US and Nato willingness to use force in the Balkans to achieve a peace deal, Russia's more assertive and nationalist foreign policy, China's scribe-rattling over Taiwan and the US naval deployment were examples. Looking at the Middle East and other areas, the IIS said the continued threat from groups of the weak or disaffected who launch terror campaigns was still capable of crippling efforts of major nations.



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SATELLITE TELEVISION

Media barons line up for digital star wars

Bronwen Maddox and Raymond Snoddy report on what could be a winner-takes-all battle for pay-TV dominance in Europe

Europe's digital TV revolution kicks off its earliest later this month when Canal Plus, the French pay-TV company, switches on 20 new channels. Within a few years, dozens of new satellite channels could be beamed over Europe. The world's media barons are striking deals by the week as they jostle for position.

Pay-TV - charging for channels - has revolutionised the economics of television. New technology and deregulation allow TV companies to raise revenues directly from viewers. That frees the industry from its traditional dependence on advertising, which has shackled its growth. It also allows channels with small audiences, incapable of attracting much advertising, to be profitable.

Conventional pay-TV services, transmitted on analogue signals, have already proved a gold mine for Canal Plus, the UK's BSkyB and the Netherlands' NetTV. The digital explosion has now multiplied pay-TV's potential, to an extent which other media groups have been unable to resist.

Some companies argue that the proliferation of outlets will make TV more like publishing, in which mass-market companies exist alongside specialist ones. Others - particularly the bigger players - believe pay-TV can be a "winner-takes-all" market.

Securing a supply of exclusive programming, or owning the dominant technology for scrambling channels, could give one group a degree of market power hard to challenge, even through regulation. The expense and urgency of the attempt to build such power has prompted the Europe-wide scramble for partners who will contribute programming or technology, and minimise the risks.

For governments and regulators the changes pose dilemmas. Governments want to encourage investment in the digital revolution, and yet prevent companies accumulating too much market power. Some want to maintain public service broadcasting, but not undermine the commercial market. They have a brief window to debate such questions, before winners start to emerge from Europe's pay-TV wars.

The revolution that could bring viewers 1,800 new channels

In the digital race, some start ahead of others. Three companies already dominate Europe's conventional pay-TV. In the UK, BSkyB, 40 per cent owned by Rupert Murdoch's News Corporation, is the leader. According to the Independent Television Commission, the regulator, in 1994 BSkyB had more than 90 per cent of TV subscriptions, through satellite and cable distribution.

The French Canal Plus has built a business worth some £3bn from its subscription channel broadcast over land-based transmitters. It has capitalised on its strength in its home market by investing in minority stakes in Belgian, Spanish and Polish pay-TV, in co-operation with local TV companies. NetHeld, the Netherlands-based service, 50 per cent owned by the Swiss group Richemont, transmits its Multi-Choice and FilmNet channels, including adult films, through much of northern Europe.

Although almost every European country has access to at least one pay-TV service, the popularity varies widely. According to Morgan Stanley, the US broking house, pay-TV subscribers expressed as a percentage of TV households range from just 3 per cent in Germany to 13 per cent in the UK and 19 per cent in France. And although the average European viewer watched around 177 minutes of TV each day last year only one minute of viewing time was devoted to each of the cable and satellite channels available.

Against the lucrative but un spectacular backdrop of conventional pay-TV, the digital revolution has been kicked into life by two developments: deregulation of the TV industry in many European countries, allowing the launch of more channels, and the emergence of digital transmission and encryption technology.

Digital compression of signals allows many more channels to be transmitted in a given band of airwaves frequencies than does conventional analogue transmission. Analysts estimate that the cost of transmission is set to fall by about 90 per cent. At present, a satellite transponder - which receives the signal from earth and re-transmits it - costs about \$3m (£1.96m) a year to lease, and provides one TV channel. Digital compression, which transmits only the digits which change between one TV picture frame and the next, enables a single transponder to transmit between eight and 10 channels, depending on the picture quality required.

Dramatic expansion
Satellite owners are hoping that the fall in the cost of transmitting a single channel will push up the value of a transponder. They are shooting a host of new satellites into orbit. During the night of April 9, SES, the Luxembourg-based company which operates the Astra system of satellites, successfully launched its second entirely digital satellite. The satellite, which will be in service within two months, will give Astra a total of 40 transponders devoted to digital TV.

SES is due to launch a third Astra digital satellite in the first quarter of next year, taking its digital transponder total to 66. It will then have the capacity to broadcast between 500 and 560 channels over Europe. It says that almost all the capacity is already leased or is the subject of "advanced negotiations". It plans a fourth launch before the end of 1997. And Mr Romain Bausch, SES's director general, revealed recently that the company, with the support of the Luxembourg government, has applied for new orbital positions to launch even more.

At the same time Eutelsat, owned by Europe's main telecoms operators, is pushing ahead with its series of "Hot Bird" satellites. By the end of the century, it says, it could offer 800-1,000 digital channels. Ms Rebecca Winnington-Ingman, media analyst at Morgan Stanley, says the digital age "has dawned and that's official" regardless of demand, the number of TV channels available to European viewers is set to increase to thousands over the next three years.

What will services be?
If digital is to fulfil investors' expectations, it will have to offer more than existing cable and satellite services. Viewers will have to pay not

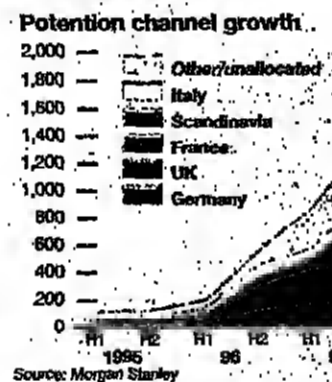
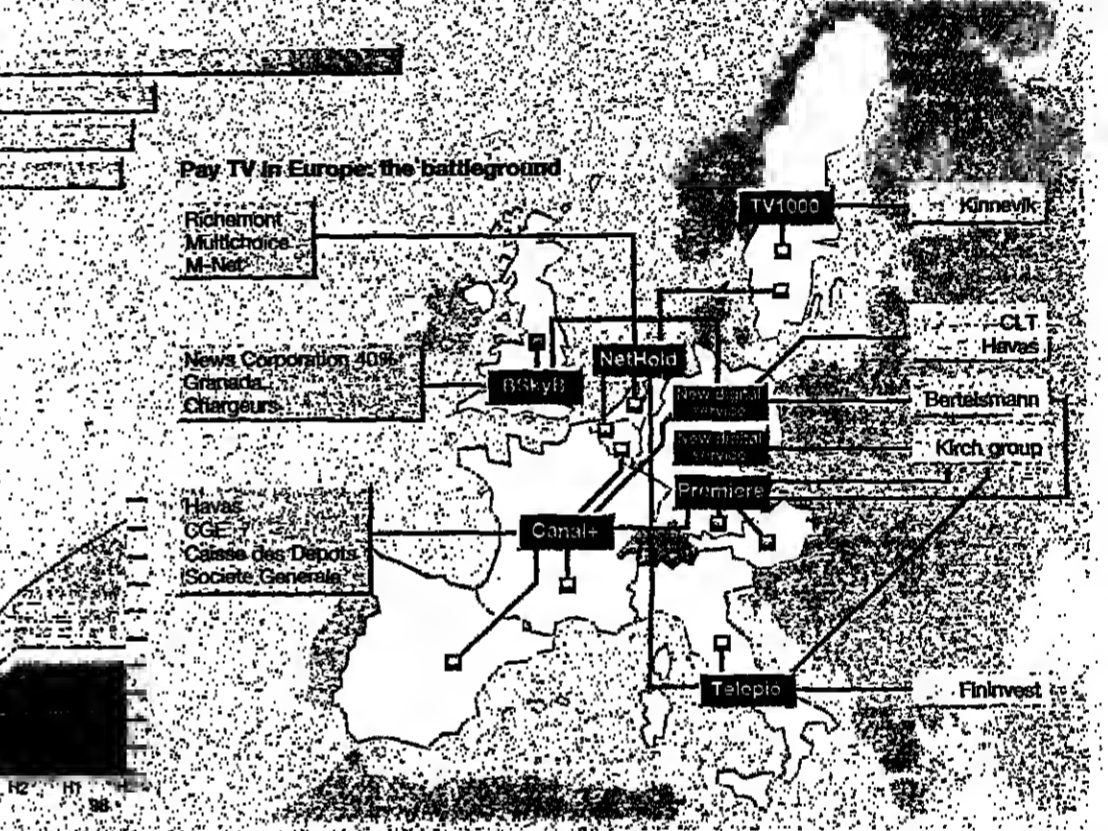


Pierre Lescaur, chief executive of Canal Plus; Rupert Murdoch, News Corporation; Leo Kirch; Michael Zemanek, Bertelsmann director responsible for TV.

TV penetration (Million households)

Germany	37.4
UK	22.3
France	20.9
Italy	20.9
Spain	11.7
Poland	11.7
Scandinavia	10.1
Netherlands	6.2
Belgium	3.6
Ireland	1.1

Source: Morgan Stanley



also seems to have restrained the leading contender. BSkyB has drawn up plans for a 300-channel digital satellite service, but seems likely to hold back until at least the autumn of 1997.

In part, that may be because it is unsure of the extent of its programme resources; its five-year, £30m deal with the Football Association Premier League runs out at the end of next season. Two groups are considering challenging it for the rights - Carlton Communications with the Mirror Group and Pearson, owners of the Financial Times, and MAI, broadcasting and financial services group, which is in the process of merging with United News and Media, publishers of the Daily Express.

The UK government has been keen to promote digital terrestrial TV although other European countries, with the exception of Sweden, have shown little interest. However, there is widespread scepticism within the UK that digital terrestrial would be commercially viable. A central factor in its success would be whether its decoding technology was compatible with that of BSkyB's proposed digital satellite services.

But the main reason for BSkyB's restraint seems to be that it is waiting until the broadcasting bill has completed its passage through Parliament. The political sensitivity of its expansion plans stems from its grip on conventional pay-TV, as well as News Corporation's share of the newspaper market.

In the UK, BSkyB's rivals say not enough is being done to prevent it acquiring the same power in digital. "It is perfectly possible to devise digital encryption technology without building in proprietary software. But it is BSkyB's interests to start the design with as much of its own software as possible to make it hard for others to get access," says one adviser to a cable company.

The last corner of the pay-TV battleground is Italy. The Canal Plus-BSkyB-Bertelsmann alliance is planning an offensive on the Italian market after the German launch. It will face familiar rivals, however: NetHeld and Kirch have stakes in the existing pay-TV channel Telepiu, which is backed by Mediaset, the TV arm of Silvio Berlusconi's Fininvest. But Italian cable and satellite television is still in its infancy. The success of the rival players is likely to be slow to develop, and to depend partly on battles for supremacy fought first in other European countries.

Even though the winners and losers remain unclear, the new alliances present serious issues of regulation, and more generally, of national policy. First, there are concerns about attempts to corner entire strands of programming, such as sporting rights, and about the pressures such attempts put on state or public service broadcasters. Second, there are growing worries about how best to tackle the now-acknowledged threat of monopoly control of encryption technology.

All the recent deals will be looked at closely by Mr Karl van Miert, the European Union's competition commissioner. The internal market directorate is also expected to produce a report on media concentration later this year.

On programming and distribution, Mr van Miert has shown himself prepared to take a tough stand in heading off potential abuses of market power. In 1994 he blocked a proposed alliance in the German market between Bertelsmann, Kirch and the state telephony monopoly Deutsche Telekom. A Dutch TV venture, grouping the RTL and RTL5 channels with the new commercial channel Veronica, was also blocked on the grounds that it would limit opportunities for competition in the Dutch TV market.

European and national programme authorities have also recently shown willingness to protect the position of existing broadcasters from the wallets of the pay-TV operators. The European Broadcasting Union, which buys sports rights on behalf of all Europe's public service broadcasters, won the European rights to all the Olympics to the year 2008, despite being outbid by a Murdoch-led consortium. In the UK, a House of Lords rebellion persuaded the government to protect eight sports events such as the FA Cup Final and Wimbledon tennis for terrestrial TV.

As preventative measures go, those may be adequate. But the experience of cable companies in the UK shows that it may be hard to prevent exercise of market power once acquired. They have complained to the UK's Office of Fair Trading that the terms on which BSkyB sells them programming, for onward distribution, are unfair.

The question of proprietary rights to black box digital decoders is likely to prove even trickier. The European Commission accepts that access should be "fair, open and non-discriminatory". But it has not yet overcome the enforcement burden.

For viewers it means they will increasingly be bombarded with offers of new technology and services, although it will be years before it is clear what kind of range is available.

It is likely that the vision of a host of specialised channels will, at least in part, be realised. As Mr Michael Tyler, managing director of Putnam Hayes Bartlett, a consultancy, argues that "television is going to become more like publishing - much more targeted programming". But what remains unclear is how wide that scope will be, and whether a few companies will be able to dominate.

For the moment changes are slight. Public service broadcasters and state broadcasters, who have been resigned to seeing their audiences fall, appear to have a reprieve, at least temporarily.

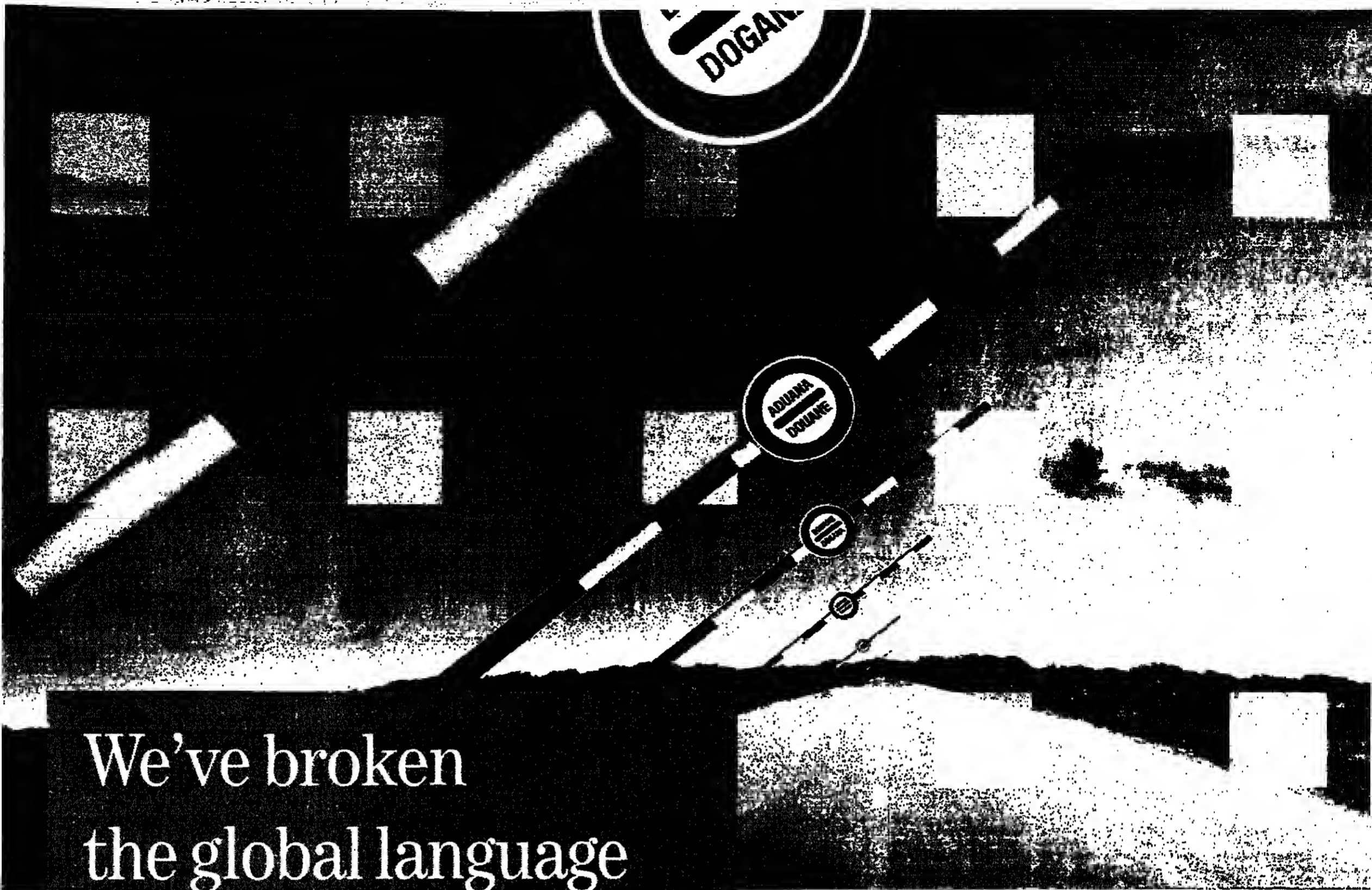
They may also be able to participate. Mr Tyler points out that "targeted programming is something which state broadcasters, and the BBC, have been good at, as well as programmes for mass audiences."

Last month Mr Will Wyatt, managing director of BBC Television argued at an EBU conference in Brussels that a decade from now existing networks would still offer most viewers what they wanted for most of the time. Two years ago the BBC feared its share of viewing would fall to 30 per cent by the year 2000. The forecast has now been revised upwards to between 37 per cent and 38 per cent. "Terrestrial channels will still retain the highest share of the audience - probably close to 60 per cent to 65 per cent by 2005," says Mr Wyatt.

That is not just brave talk. Some groups are likely eventually to make a fortune from the digital revolution. But the obstacles currently in the path of digital pay-TV, and the time needed for clear winners to emerge, may mean that the picture changes more slowly than Europe's media moguls would like.



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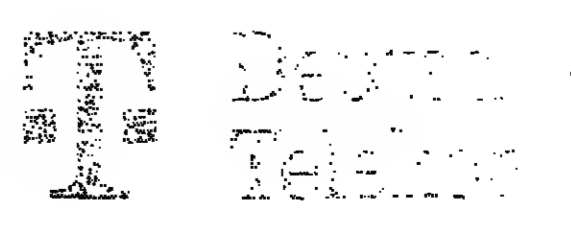
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NEWS: UK

Sinn Féin and SDLP to join in elections

By John Kampfer, Chief Political Correspondent

The Northern Ireland peace process was given a boost yesterday when Sinn Féin, the political wing of the IRA, and the moderate nationalist Social Democratic and Labour party said they would contest next month's elections to a constitutional forum.

However, the announcements were tempered by a headline message from Martin McGuinness, Sinn Féin's chief negotiator, that there was "no prospect whatsoever" of the IRA restoring its ceasefire.

The decision to take part in the May 30 elections came shortly after passage through the House of Commons, the UK parliament's lower house, of a bill setting out the rules for such a poll. The elections are to be followed by all-party talks on June 10.

Mr Gerry Adams, the Sinn Féin president, said the elections would allow his party to "seek a re-endorsement of our peace strategy and to return a strong republican and nationalist voice, which makes it clear that there is no going back to unionist domination".

He reiterated that Sinn Féin would not take part in the 110-strong forum. The SDLP's chief whip, Mr Eddie McGrady, said his party had yet to decide whether to join the forum.

British ministers conceded during a two-day debate that the forum would meet only after the all-party negotiations had begun. This was a key demand of the SDLP which, like Sinn Féin, regards the forum as an obstacle to the talks and an attempt by Unionists to resurrect the failed Stormont parliaments of the 1970s and 1980s. Downing Street welcomed the participation by the two parties.

The UK government, supported by Washington and Dublin, has told Sinn Féin it cannot take part in the talks unless the IRA restores the ceasefire. Mr McGuinness said the IRA campaign would continue as long as the British impose conditions on Sinn Féin's participation in talks.

Major speaks out for EU membership

By Robert Peaton, Michael Cassell and John Kampfer

Mr John Major, the UK prime minister, yesterday described proponents of withdrawal from the European Union as living in "cloud cuckoo land", in his most pro-European speech for two years.

In an attempt to head off a campaign by rightwing Conservative members of parliament, backed by media supporters, for a referendum on the UK remaining in the EU, he extolled virtues of membership. It was "naïve and damaging" to suggest that "the only choice we face is either to go along with every demand our partners make or head for the

exit". Inward investment in the UK would be decimated by leaving, he told the Institute of Directors in London.

His remarks were in part aimed at Sir James Goldsmith, the billionaire who is financing a new party, the Referendum party, which is campaigning on a need for a plebiscite on the UK's relationship with the EU.

Mr Major delivered his speech hours before Mr John Redwood, the former minister who last year sought to oust him from office, held talks with Sir James.

Mr Redwood said he had wanted the meeting to persuade Sir James not to worsen the government's plight by

putting up candidates against the Conservatives at the next UK general election.

The influential Eurosceptic backbencher acknowledged that he had failed to persuade him to back the Conservative party as the best way of achieving the kind of Europe he both want.

The 55-minute meeting, in Sir James's suite at London's Dorchester hotel, was denounced by one senior government member as "childish and disloyal".

Mr Major balanced his pro-European comments by stressing that he was a tough negotiator in EU forums, with Britain's best interests in mind. If he could not reach

agreement over issues to be raised at this year's intergovernmental conference on EU institutional reform he would "just say no".

Mr Major said the UK was not seeking confrontation in Europe but that it was not "going down the centralising route" and instead sought a partnership which recognised and accommodated all national interests and beliefs.

He also made his strongest attack on EU attempts to use health and safety measures as the basis for imposing maximum working hours for employees. He had told European partners "that we must change Health and Safety provisions" to reflect the original

intentions of the legislation. He said if the EU failed to do this and "old agreements" were "broken", he did not see how we can reach new agreements.

This balancing act between pro-Europeanism and scepticism drew praise from both wings of his party.

Mrs Edwina Currie, a former minister and now vice-chairman of the cross-party European Movement and chairman of the Conservative Group for Europe, was "delighted". "The biggest cuckoo is Jimmy Goldsmith and his sidekick cuckoo is John Redwood".

The leading sceptic, Lord Tebbit, was pleased by Mr Major's "realism" which came "from his heart".

Cattle slaughter scheme outlined by government

By George Parker and Deborah Hargreaves in London and Caroline Southey in Brussels

The UK government yesterday finalised details of the selective slaughter plan it hopes will eventually lead to the lifting of the European Union ban on British beef exports.

Mr Douglas Hogg, agriculture minister, sent the European Commission proposals for the slaughter of around 42,000 cattle which he believes to be most at risk from BSE, or mad cow disease.

The development offered the first sign of a breakthrough in the crisis. An EU official said that it was "very good news indeed" if the information "represented the plan the Commission was waiting for".

He said the commission could look forward "more optimistically" to the meeting of agriculture council ministers on Monday. Last night Mr Hogg was seeking an early meeting with Mr Franz Fischer, EU agriculture commissioner, in an attempt to build a consensus between Brussels and the UK on the effectiveness of the plan.

Officials said the meeting could take place today, and would certainly happen before the EU agriculture ministers met on Monday.

The UK government has run into huge difficulties in trying to implement its scheme for slaughtering over 1.5m older dairy cows and cattle as part of its efforts to combat BSE, Deborah Hargreaves writes.

The scheme is due to begin next week. Wholesalers say they will not take part in the scheme at all unless the government changes the rules to pay compensation on the basis of the weight of the cattle once dead, rather than alive as is currently the case.

Farmers and meat traders are due to hold more talks with the Ministry of Agriculture officials today.

The National Farmers' Union said talks so far about the scheme "had left many questions unanswered".

A UK government official said that it was hoped the scheme would start next week, "but it will be extremely difficult".

"The key priority is to get the commission on board," said one senior official last night. "We want to be able to present a joint UK/commission proposal to the council on Monday."

The scheme, approved by Mr John Major, the UK prime minister, yesterday afternoon, will

affect around 2,000 herds. It will focus on animals originating on farms with a high incidence of BSE in the early 1980s. The proposal comes on top of a scheme, already approved by the EU, to destroy around 15,000 older dairy cows a week and an estimated 100,000 beef cattle over the age of 30 months.

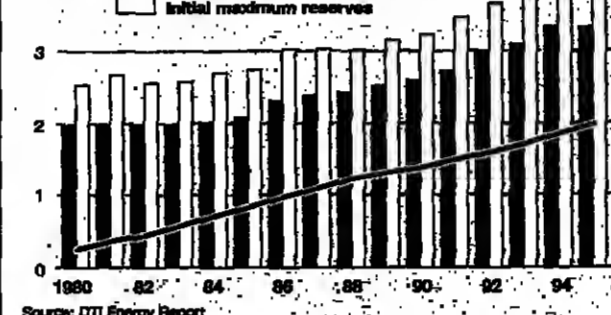
Senior ministers accept it could be many months before the worldwide ban on British beef is lifted, but believe that a "step-by-step" easing of the embargo could begin at Monday's meeting.

Mr Hogg firmly believes that Mr Fischer and Mr Jacques Santer, the president of the European Commission, are on Britain's side in wanting an early end to the ban.

"If we can get Commission support for this programme of action, we can show we are on the side of the angels at the meeting on Monday," said one senior government official. Mr Major and Mr Hogg met representatives of the National Farmers Union in Downing Street yesterday morning and warned that a lifting of the beef export ban could take some time. "I am not trying to underestimate the difficulties," Mr Hogg said. "There is still a lot of persuasion to be done, and I don't want to unduly arouse expectations."

North Sea bonanza likely to continue

By David Lascelles, Resources Editor



Source: DTI Energy Report

The UK's oil and gas bonanza in the North Sea continues to set new records, and could last until the middle of the next century, according to Mr Tim Eggar, the energy minister.

The latest official figures on the UK oil and gas industry, unveiled by Mr Eggar yesterday, showed that total oil production reached a new high of 130m tonnes last year, up from 127m tonnes the year before. New discoveries meant the volume of reserves also increased slightly to 3.3bn tonnes. Gas production at 75bn cu m was at a new high, and gas reserves rose slightly to 2.5bn cu m.

Mr Eggar said these figures confounded predictions that the UK's oil and gas industry would decline in the 1990s. It was clear the industry was flourishing and making a significant contribution to the economy. "Taking known discoveries and the potential from all possible future discoveries, our reserves could last into the middle of the next century at current rates of consumption," he said.

There are many reasons why Britain's oil boom is lasting longer than first thought. First, said Mr Eggar, the UK tax and regulatory regime made the North Sea one of the most attractive places in the world for oil companies to explore and produce. Record numbers of new exploration and drilling projects were approved last year.

Yesterday's figures will help reinforce the government's commitment to maintaining an appealing operating environment for international oil companies.

Improved disclosure in companies' annual reports and action by institutional shareholders ahead of company meetings has raised serious questions about how UK companies are being run and whether corporate governance rules - in some cases only recently introduced - are effective.

One fund manager predicts that the lesson of the UK's latest annual meeting season will be that "we have lots of corporate governance rules for areas where we don't really need them and none for where we do".

Companies and fund managers draw mainly on the recommendations of the 1992 Cadbury Committee on corporate governance, which recommended splitting the roles of chairman and chief executive, and more recently the Greenbury committee, which reaffirmed that directors need to be more accountable to shareholders, for best practice guidelines.

With the approach of a general election in the UK, political donations by companies has become one of the most controversial corporate governance areas.

Sun Alliance, the insurance company, is the latest of several companies to disclose an annual political donation - £50,000 to the Conservative party - in its annual report.

UK NEWS DIGEST

Trading system plan faces delay

London Stock Exchange directors will meet today to decide whether to delay the issue of a blueprint for their new electronic trading system. The steering group preparing for the new order matching system will ask the Exchange board to approve a delay of several weeks so that the changes to trading rules can be discussed in more detail with regulators at the UK Treasury, the Securities and Investment Board and the Office of Fair Trading.

The board meeting comes two days after Mr John Bridgeman, the director-general of fair trading, warned the Exchange he would not allow it to drag its feet over the introduction of an order-driven trading system.

In the new system, scheduled to be introduced next year, orders will be entered on a central electronic order book, and automatically executed when buyers and sellers match. Under present rules, marketmakers quote prices on a central stock exchange screen, but deals are struck over the telephone.

Stock Exchange officials have been at pains to combat the impression that order matching is being held up by the large marketmaking companies which have a big share of the quote-driven market.

George Graham

Banks chosen for nuclear sell-off
Seven banks were appointed yesterday to the international syndicate which will sell shares in British Energy, the future owner of the UK's nuclear generators.

The UK government is expected to raise between £2.2bn and £2.6bn (\$3.3bn-\$3.9bn) from British Energy's stock market flotation, scheduled for early July. The shares will be listed in London and issued on a partly paid basis.

The Department of Trade and Industry selected Cazenove, HSBC, Mediobanca, Morgan Stanley, Nikko, Paribas and West Merchant Bank, part of Germany's Westdeutsche Landesbank Group.

EWG, the global co-ordinator for the offering, said the seven were chosen for their understanding of the complex research issues involved in the privatisation and for their regional equity distribution strengths.

A research meeting for the analysts of the eight banks will be held on May 3 to enable them to produce their research documents before investor roadshows begin in late June.

Antonia Sharpe

Lloyd's Names defend payers
Lloyd's of London Names have formed another "action group" - this time to represent the interests of those who have paid their losses at the insurance market.

The Paying Name's Action Group is alarmed that Lloyd's proposed recovery plan, which includes a £3bn (\$4.6bn) or more out-of-court settlement offer, will reward unfairly those who refused to pay up during the market's bad years. Names are individuals whose assets have traditionally supported Lloyd's. The market has reported losses of more than £50m in recent years.

Ralph Atkins

Cuts threaten World Service
The BBC World Service warned yesterday that it might have to cease broadcasting in a number of languages if planned government cuts go ahead. Mr Sam Younger, World Service managing director, told the Foreign Affairs Select Committee that if planning figures did not change "we will later in the year have to be looking at cuts in programme services".

He said: "The cuts would make a very small saving to the Exchequer, but cause disproportionate damage to World Service output."

Raymond Snoddy

Court rules on women's pensions
The Lloyds Bank pension scheme may have to increase benefits by up to £100m (\$151m) following a High Court ruling yesterday on equalising pension benefits for men and women.

The case was brought by the trustees of the scheme to test the legality of bank plans to level down the benefits payable to 2,000 women who joined Lloyds before 1974, when it equalised benefits payable to its employees of both sexes.

Until 1974 women could retire at 55 with a full pension after 37 years of service, while men had to wait until 60 and serve at least 40 years. The decision follows a European Court ruling in 1990 which required pension schemes to give equal benefits to both sexes.

Alison Smith

Engineers court multinationals
The Engineering Employers' Federation, Britain's main engineering trade body is to try to recruit more multinational companies as members as part of its strategy to carve out a broader role. The organisation, set up 100 years ago yesterday, also plans to step up the level of service it offers members, mainly at a regional level.

It wants 5,500 member companies by 1999, up from 5,000 now. It believes recruiting more multinationals would give it greater political weight, for instance when presenting views to ministers, and deeper knowledge about technology flows between different sectors and trade issues.

Peter Marsh

FT ASIAN ELECTRICITY
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- ★ **The Role of Electric Transmission in a Deregulated Environment**
Mr Lennart Carlsson, Marketing Manager, ABB POWER SYSTEMS AB, Sweden
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Company conduct comes under increased scrutiny

William Lewis examines UK corporate governance

Mirror Group states in its annual report that it has given £21,000 to the Labour party. Another important area involves the changes being proposed by companies to the rules governing their annual meetings.

British Aerospace, the UK defence company, is facing pressure about its plans to reform the rules for voting at its annual meeting. It wants to scrap votes on a show of hands and end shareholders' rights to propose amendments to resolutions at its annual meeting.

BAe said last night that another proposal to end the annual vote on its report and accounts would be amended. "We will continue to have the report and accounts voted on all the time that it remains best practice", the company said.

Earlier this week Inspec, the former BP chemicals company, agreed to back down on its proposal to insulate directors from having to seek regular re-election by shareholders. An insider said: "Some big shareholders told them it was daft to introduce such a backward step and they agreed."

Concerns have also been raised about Kwik-Fit, the tyres, exhausts and brakes fitter, whose chairman and chief executive, Mr Tom Farmer, is up for re-election at the company's annual meeting, on a five-year rolling contract.

NOTICE OF REDEMPTION TO THE HOLDERS OF THE BEARER NOTES OF INDUSTRIAS METALURGICAS PISCAROMBA S.A.I.C. Y F.

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Payment of the Redemption Price of the Notes will be made to Bearer Noteholders upon presentation and surrender of the Notes at the offices of the Principal Paying Agent at 46 Berkeley Street, London W1X 6AA, England, Attention: Trevor Blewett; and to the offices of the Paying Agents in Luxembourg and Brussels, Belgium.

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INDUSTRIAS METALURGICAS PISCAROMBA S.A.I.C. Y F.
Dated: April 25, 1996

سكواتن الأصل

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UGANDA

An inspiration for the continent

Uganda has replaced Ghana as the model reformer in Africa. Now it needs to ensure a peaceful political transition while maintaining a high growth rate, says Michael Holman

The highest economic growth rate in Africa is turning a country once associated with disaster into an inspiration for the continent.

Ten years after President Yoweri Museveni and his National Resistance Movement took office, the revival of a nation devastated by the despotic regime of Idi Amin and the war to overthrow him continues apace.

Uganda's GDP growth has averaged 6 per cent annually since 1987, notched up an astonishing 10 per cent last year, and is set for around 9 per cent this year.

Inflation is held at 5 per cent, the freely convertible currency remains steady, foreign reserves equal nearly five months' import cover, and the return of Asians expelled in 1972 has boosted investment.

No wonder, then, that Uganda has supplanted Ghana as the model pupil of the World Bank and the International Monetary Fund (IMF), and western donor support runs at more than \$500m a year.

Yet the celebration of what has been a remarkable decade of economic recovery and political stability is somewhat muted, and with good reason.

Next month's presidential poll has revived concerns about the country's long-standing regional and ethnic divisions, while rebel activity has disrupted normal life in parts of the north.

And for all the progress since President Museveni took power in 1986, Professor Paul Collier of the Oxford Centre for the Study of African Economies points out, "the economy on most indicators is less than halfway back to its size and shape in 1972".

That watershed date is the year after Amin seized power, precipitating Uganda's economic and social collapse. By



Yoweri Museveni: era of coalition government may be over



Paul Ssemogerere: stronghold among the Baganda in the south

1980 exports of tobacco, tea, cotton and copper were nil or negligible. Production of coffee, the main foreign exchange earner, slumped to half pre-Amin levels, while a once thriving tourist sector had folded.

Manufacturing had collapsed, hastened by the mass expulsion of Asians and a crude nationalisation policy.

The country remains deeply scarred by its past: skills were depleted by political killings under Amin and former President Milton Obote, and a badly damaged road, rail and power

infrastructure is still being rehabilitated.

It was the need above all for peace and stability, and consensus about the basic development objectives, that led Mr Museveni to try to find a middle way between the one-party system that has served Africa so badly, and the Westminster multi-party model that has proved so fragile.

Thus for most of his first decade in office, Uganda has functioned under a no-party system, in which the former political parties, while not banned outright, have been severely constrained.

At the same time, Uganda has enjoyed a relatively free press and independent judiciary. While the NRA has been firmly in control, cabinet has until recently reflected a cross-section of parties, regions and ethnic groups.

That is now changing, as much due to pressure from western donors seeking a more democratic, accountable form of government as a condition for their continued aid, as from any internal pressure for change.

It is probably not before time. Power has become increasingly concentrated in the hands of the president and a group of aides, officials, ministers and army officers drawn from Mr Museveni's home region in the west.

If all goes to plan, parliamentary elections next June will be followed by a referendum four years hence which will allow Ugandans to decide whether to return to multi-party politics.

Yet, to the dismay of many Ugandans, the country is emerging from its hiatus in conventional political activity with the traditional alliances and cleavages surprisingly intact.

Political loyalties still seem largely determined by ethnic-



Kampala, the capital city: Uganda's GDP growth has averaged 6 per cent annually since 1987 and last year reached an astonishing 10 per cent

Picture: Michael Irving

ity, region and history. Though the edges may be blurred, the Uganda People's Congress (of which Mr Obote is still the leader, though in exile in Zambia) draws heavily for its support on the northern Langi-Acholi tribal base.

The Democratic Party, led by Paul Ssemogerere, who is now running for the presidency as a joint DP-UPC candidate, has its stronghold among the Baganda people in the south.

Mr Museveni's hold on the west, coupled with his record of securing peace and maintaining economic growth, will probably be enough to secure him a further term in office, but at a price.

The era of de facto coalition government may be over. Mr Ssemogerere, who has served in past cabinets, is now firmly in the ranks of an opposition which will turn its attention to the parliamentary elections.

This leaves some Ugandans uneasy, for it can be argued that now as much as ever, Uganda needs a government of national unity if it is to cope with rebel activity in the north and sustain its high level of economic growth.

The past few weeks has seen a resurgence of fighting around Gulu and other centres in northern Uganda, involving a bizarre religious sect known as the Lord's Resistance Army, supported by neighbouring Sudan, and exploiting ethnic rivalries, historical grievances, and a sense of neglect highlighted by the contrast with the buoyant south.

Making development more equitable and maintaining growth will not be easy, as Joseph Mayanja-Nkang, finance minister, readily acknowledges, for the country has some formidable hurdles to overcome.

Servicing the country's \$3.3bn debt takes up around 30 per cent of export earnings. The country's skills shortage is exacerbated by the blight of Aids, which according to one forecast could see life expectancy fall to 32 years by 2010.

Placing the banking sector on a healthy footing is proving a demanding job, with the Uganda Commercial Bank, the country's largest, paying the price for ill-advised loans to government officials, politicians and senior army officers.

And while the Uganda Investment Authority calculates that some \$50m in foreign investment has been attracted to the country since 1981, even higher commitments are necessary if Uganda is to maintain growth and reduce its dependence on donor support.

Official gross aid flows totalled about \$50m in 1995/4.

more than twice the value of merchandise exports, and the same amount last year. "At present," notes a World Bank study, "aid covers more than 80 per cent of all public investment and a substantial share of other public outlays."

Meanwhile, the structural adjustment programme which is at the heart of Uganda's economic reforms still has a long way to go, and must overcome resistance.

Much of the returning capital has gone into rehabilitating a manufacturing sector dominated by import substitution. Many businessmen, led by the Uganda Manufacturers' Association, argue that the pace of trade liberalisation demanded by the World Bank is too rapid, leaving their factories vulnerable to cheaper, imported products.

Yet Uganda can draw on an extraordinary range of natural

resources to help it overcome these challenges and fuel further growth.

The revival of the country's high quality cotton crop, rehabilitation of the tea estates, development of non-traditional agricultural exports ranging from vanilla to roses, will provide a huge boost to the economy.

Other assets soon to be realised or expanded include the cobalt in the tailings at Kileleshwa copper mines, and the tourist potential of one of Africa's most scenic countries.

Mr Museveni's great achievement has been to provide the platform of peace and security that economic growth requires. As the political temperature rises in the run-up to next month's poll, Ugandans will need to ensure that old rivalries and tensions do not jeopardise the continuation of the country's economic recovery.



THE REPUBLIC OF UGANDA

TELECOMMUNICATIONS PRIVATISATION EXPRESSIONS OF INTEREST

The Government of Uganda, through its Privatisation Unit, invites expressions of interest from experienced network operators, providers of public telephony and other investors who may be interested in the investment opportunities in the telecommunications sector in Uganda.

Uganda is in its 10th year of stable government, comprehensive economic reform and has one of the fastest growing economies in Africa. Over the past 5 years the country has consistently achieved and often exceeded goals set by the IMF and the World Bank for GDP growth and inflation. The International Finance Corporation (IFC) has been retained by the Government as financial advisor for the transactions outlined below.

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- Acquire a significant majority stake in the existing network, or to
- Bid for a license to build, own and operate a second national network to compete with the existing network

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- Achieving internationally accepted service quality targets
- Eliminating Government from ownership and operations while strengthening its policy and regulatory roles
- Fostering competition in all market segments

In order to achieve its goals, the Government will, this year:

- Enact comprehensive, internationally developed legislation, establishing an independent regulatory body to provide for the rights and obligations of authorised operators and providing for interconnection, performance obligations and fair competition as well as for the interests of subscribers and investors
- Tender a license to a Second Network Operator (SNO) for local, long distance, international and cellular communications, plus value added services such as Internet access, electronic mail, voice mail and other specialised services; allow the SNO to operate under all existing international telecommunications agreements and agencies to which Uganda is a signatory; and mandate interconnection to the existing network under contractual terms and conditions to be negotiated prior to closing the transaction
- Create Uganda Telecommunications Limited (UTL) to hold the telecommunications assets of the Uganda Posts and Telecommunications Corporation (UPTC)
- Sell a controlling interest in UTL to a qualified strategic investor or consortium of investors

Further information is available to experienced network operators, providers of public telephony and other investors. To obtain this information, interested parties may access the World Wide Web Page Uganda Privatization Org or should send their request together with a copy of their latest Annual Report to:

Mr. William Okecho,
Director
Privatisation Unit
Ministry of Finance and Economic Planning
IPS Building, 6th Floor, Parliament Avenue
P. O. Box 10944 KAMPALA - UGANDA
Office Tel: (256) 041-256467 / 256392 / 254751
Fax: (256) 041-259997 Telex: (PEPUGA) 61200
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2 UGANDA

Economy by Michael Holman

Top of the reform league

Uganda has to consolidate its achievements and attract substantial foreign investment

When the World Bank and International Monetary Fund (IMF) launched their structural adjustment programme in Africa, few would have thought that a decade or so later Uganda would be leading the field of successful reformers.

Even though the country's 1994-95 gross domestic product growth of 10 per cent owed much to a boom in coffee earnings - directly worth 3.8 per cent of GDP according to one estimate - the foundations for the remarkable performance had been laid over the years.

Now Uganda has to consolidate its achievements and do what no other African country has managed.

It has to follow in the footsteps of east Asian economies and maintain high growth, breaking free of its dependence on aid by attracting substantial foreign investment and increasing levels of domestic investment.

To do this Uganda needs to expand an export base reliant on a handful of cash crops, make an import-substitution manufacturing sector competitive in international markets, and provide a more efficient economic environment. What is more, Uganda has to carry

out these measures while coping with a difficult transition to multi-party politics.

It is a tall order, given constraints that range from a weak financial services sector to a poor infrastructure, a relatively small and landlocked domestic market of 19m people, and levels of domestic investment that are well below East Asian levels.

Officials say that the country has already passed the first test, however, by maintaining fiscal discipline and resisting the temptation to spend in an election year - unlike Ghana, the only mainland African country whose reform performance can compare with Uganda.

Joash Mayanja-Nkangi, Uganda's finance minister, insists that he has President Yoweri Museveni's backing in his determination to keep state purse strings tight.

The only areas where original budget estimates may not be met, he says, are defence, where spending has risen as a result of the rebel activity in the north, and a higher than anticipated cost of forthcoming presidential and parliamentary elections.

Western donors are not so sure. Spending over-runs may not be so substantial that the minister suggests, they suspect, and they are waiting to see the latest data for themselves. But as of the end of last year, government was meeting its commitments under an IMF extended structural adjust-

ment facility (ESAF), and the Fund released the second \$80m tranche of its \$180m ESAF agreement.

Among the performance targets, say Fund officials, is the continuing reduction of the overall budget deficit before grants as a percentage of GDP. This has fallen steadily from 13 per cent of GDP in 1991-92 to 7.5 per cent in 1994-95, and the aim is bring it down to 4.4 per cent by 1997-98.

This has been helped by rigorous cuts in both the civil service and army. The former has been reduced from 320,000 people in 1990 (including so-called "ghost workers" - employees who have died, but whose relatives still collected their salaries) to around 150,000 at the end of 1994.

About 33,000 soldiers have been demobilised in the past two years, and a further 12,500 are expected to go in a process

which will eventually reduce the army to half its present size.

Foreign exchange controls have been lifted, inflation brought down to 6 per cent for the year ending March, 1996, and the overall balance of payments position has moved from a deficit of \$3.2m in 1992-93 to an estimated surplus of about \$127m in 1994-95.

The return of Ugandan Asians expelled by the Idi Amin regime in 1972, coupled with greater general confidence in the economy, has seen the return of flight capital averaging almost \$300m a year over the past three years, according to IMF estimates.

Several banks, however, are in severe difficulties, with the biggest problem posed by the Uganda Commercial Bank, the country's largest bank, accounting for half of all commercial assets, 43 per cent of

all bank deposits and 55 per cent of loans.

Last year the government restructured UCB by having off non-performing loans to a recovery trust, in exchange for interest-bearing bonds, and injecting fresh capital.

But what makes the issue particularly sensitive is the fact that the UCB's non-performing loans, put at US\$101b (100m), are mostly owed by politicians, top managers and senior army officers.

The second difficult policy area involves the fact that much of the recent investment has gone into an import substitution manufacturing sector which will be vulnerable to further trade liberalisation - a key condition to continued donor support.

James Mulwana, chairman of the Uganda Manufacturers' Association, argues that his members need more time to

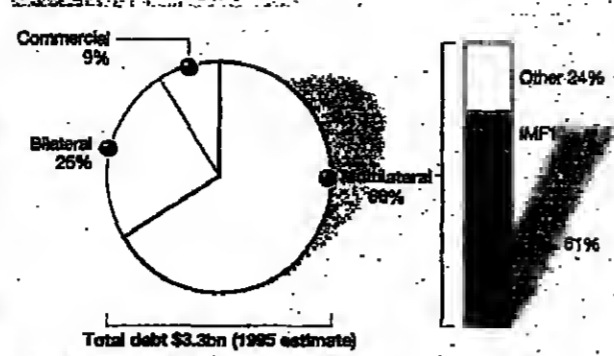
consolidate and adjust. "Give us two or three more years," he says - a plea which finds little sympathy from donors anxious to press ahead.

The country has also yet to resolve the burden of external debt, now standing at \$3.4bn. Servicing the debt takes up nearly a third of export earnings, and half of those payments go to multilateral lenders - such as the World Bank - whose purpose is to help Uganda break out of poverty.

But perhaps the critical question facing the government is whether it can raise domestic investment to East Asian levels.

Professor Paul Collier of the Centre for the Study of African Economies in Oxford points out that while private investment has been growing more rapidly than GDP for six years, public investment has followed an "extraordinary" pattern,

External debt profile

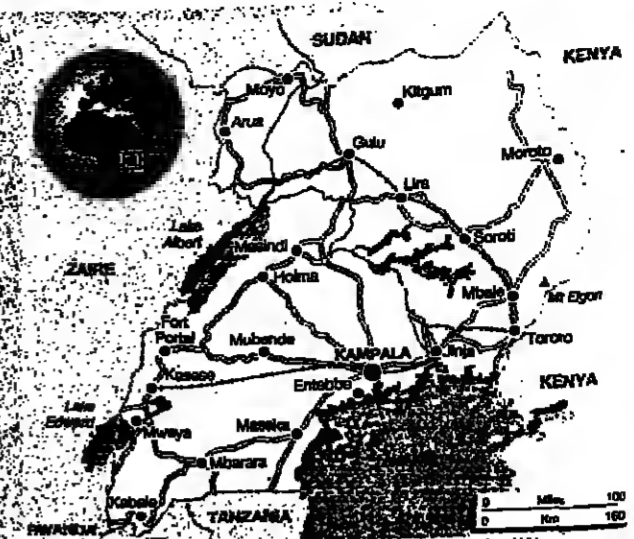


Total debt \$3.2bn (1995 estimates)

Source: Bank of Uganda/World Bank

Key Facts

Head of state:	Yoweri Museveni
Population:	19.5m est.
Land area:	197,000 sq km
Currency:	Ugandan shilling
Exchange rate:	US\$1000=200
1995 average:	US\$1010=202
1996 average (to April 22):	US\$1010=202



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Professor Paul Collier of the Centre for the Study of African Economies in Oxford points out that while private investment has been growing more rapidly than GDP for six years, public investment has followed an "extraordinary" pattern,

declining in real terms between 1988-89 and 1993-4, yet growing by 40 per cent in 1994-5.

If Uganda is to blaze the second leg of the reformist trail in Africa and sustain current rates of growth, say local economists, it must achieve a

higher rate of investment in farms and factories, as well as in human capital and economic and social infrastructure.

As one donor official puts it: "Uganda now has to show it can provide the management of its resources that sustained growth requires."

Investment by Michael Holman

Exciting opportunities abound

Political stability and sound economic policies have played a part in attracting investment interest

It seems appropriate that three of Uganda's leading development agencies - the World Bank, the Commonwealth Development Corporation (CDC) and the Development Finance Company of Uganda

(DFCU) - should be located at Rwenzori House, the sleek new office block in central Kampala.

Both the CDC and the DFCU were among investors ahead enough to have put their money into its construction, and are expecting a most satisfactory rate of return - hoping to recover their outlay within five years.

In his more modest offices on Kampala's busy main street, George Rubagumya, executive

director of the Uganda Investment Authority, sets out the factors that have made the country one of the most exciting investment opportunities in Africa: political stability; sound economic policies; a freely convertible currency; no restrictions on the employment of expatriates; cuts in corporate tax rate from 40 to 30 per cent; and investment incentives that include tax holidays up to six years and duty-free imports of capital goods and

machinery. Opportunities range from the traditional strength of the Ugandan economy - agriculture - to the introduction of high-technology, such as communications.

One of the main projects soon to get under way is the construction of a cobalt processing plant at Kilembe, 400km west of Kampala, where there is some 1m tonnes of cobalt pyrites as a by-product of the copper mining.

Brian Perks, the Commonwealth Development Corporation's manager in Uganda, explains how the CDC, the European Investment Bank, the International Finance Corporation (the World Bank's soft-loan operation) and the French company Proparco will collaborate in an \$80m project that will extract cobalt from the pyrites at a rate of 1,000 tonnes of cobalt annually over the next 12 years.

CDC's total investment in Uganda is some \$47m. A third of that has gone into reviving the dilapidated tea industry, where CDC is the single largest shareholder in Rwenzori Highlands Tea Company, in partnership with James Finlay plc. It also has placed funds into CeTeF, Uganda's recently established mobile telephone company, and Rwenzori House itself, with a 40 per cent stake.

Meanwhile, Iona Joy, seconded from the CDC as operations manager at the Development Finance Company of Uganda (DFCU), outlines a pyrethrum project run by Agro Management (Uganda) in which IFC, the East African Development Bank, the US Agency for International Development (USAID) and the DFCU itself will take part.

The project, a prime example of the country's potential to develop non-traditional agricultural exports, is expected to generate foreign exchange earnings of around \$5m a year, involving 30,000 small farmers.

It is one of around 50 projects in the DFCU portfolio, whose growth reflects the transformation of the Ugandan economy, quadrupling from US\$5bn at the end of 1992 to US\$20bn by the start of this year.

First formed in 1984, but revitalised in 1988 with an injection of new capital from its four shareholders - the London-based CDC, IFC, DEG, the German development institution, and the Uganda Devel-

opment Corporation - DFCU has no shortage of funds for appropriate projects, says Ms Joy. "Ensuring good management is usually the biggest difficulty."

For local investors difficulties in raising credit is a significant problem, in part because of their own poor track records, in part because of the weakness of the banking sector. "Parts of the banking industry are experiencing grave difficulties - in particular, the non-performance of loans and very substantial arrears," says Ms Joy.

"Cases vary, but in DFCU's experience, very poor performance of a loan is nine times out of 10 the result of inadequate management, or unwillingness by the project sponsor to honour their dues."

A weak financial sector and shortages of management skills, as well as political lobbying for favoured clients, have been among the difficulties experienced in Uganda's privatisation programme, under which a dozen hotels, as well as cement, distillery, textile, tobacco, and other companies have so far been returned to the private sector.

But further investment opportunities are opening up as the government attempts to meet its target of putting 85 per cent of state-owned enterprises back into the private

sector by December 1997, raising more than US\$500bn in the process.

Around 50 state-owned corporations are in the next phase of the privatisation pipeline, including Uganda Airlines and Uganda Commercial Bank.

But perhaps one of the most striking examples of the reversal of the disastrous nationalisation policy is the revival of the Madhvan family agro-industrial group of companies.

Reduced to near-dereliction during the Amin era, the combination of external and local investment and the return of the Madhvan management has brought about a remarkable recovery in the group's for-

turning over a new leaf: the CDC has invested \$16.5m in reviving the dilapidated tea industry

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سكوا من الأصل

Agriculture: by Michela Wrong

A lush market garden

Good rainfall and better husbandry are pushing coffee production ever upwards

Uganda has successfully resisted the urban rush witnessed in so many other African countries. Fewer than 1m people - a 19th of its population - live in the capital Kampala.

From the air it is easy to see why. With its rolling hills of fertile, well-watered soil the country resembles one large, lush market garden. With some abundance of ready food to hand for 2.5m smallholders, why move to the city?

The country's reliance on agriculture has done it little harm of late. Last year's surge in world prices for coffee, its main export, fuelled a mini-boom and prompted the government, worried about its potentially destabilising effect, to slap a tax on coffee. The International Monetary Fund estimates the coffee windfall accounted for 3.7 per cent of overall GDP.

Although prices have now fallen, coffee could still account for some 65 per cent of GDP this year.

Good rainfall, better husbandry, thanks to the farmers' renewed interest in the crop and the planting of young bushes to replace ageing stock,

are pushing production ever upwards.

Tress Bucyananyandi, head of Uganda's Coffee Development Authority, says output in 1995/96 should be 198,000 tonnes, 0.3 per cent up on 1994/95. "We're back at what we consider normal average production after the years of disruption and heading back to the peak of 213,000 tonnes reached in 1972/73. We aim to reach that and maybe exceed it."

The sector has been in the process of liberalisation for the past five years. The Coffee Marketing Board's monopoly on exports was removed in 1990, taxation reduced and most recently an export floor price was abolished. The result is a near doubling of prices paid to farmers since 1988.

But liberalisation has had an impact on quality and Uganda now needs to concentrate on improving standards if its robusta beans, which dominate exports, are to retain their premium on the world market.

"In the monopoly years farmers often had to wait a long time for coffee to be collected, so they stored and dried it carefully. With the proliferation of buyers, coffee is sold immediately and quality suffers," says Mr Bucyananyandi.

"The message is now getting through that we cannot afford to let Uganda's reputation decline."

The sector is gradually settling as less experienced

exporters collapse. Although 250 exporters have applied for licences since liberalisation started, only 80 survive and of those only 40 are really active. Mr Bucyananyandi expects 40 to 50 serious exporters to remain in two years' time.

Now that world prices have fallen, growers are looking for ways of adding value. One idea being considered is to revive exports of wet processed coffee, largely abandoned during the years of political instability.

"Studies show that as long as you can guarantee a minimum volume to the buyer, wet processed coffee pays because it caters for a specialty market," says Mr Bucyananyandi. "It's up to individual farmers, but we would certainly encourage this development."

Uganda's other traditional agricultural sectors - cotton, tea and sugar - did not weather the turmoil of the 1970s as well as coffee. Although liberalisation has triggered a recovery, output still bears no comparison to levels reached before Idi Amin expelled Asian estate owners.

The tea industry had recovered to 12,700 tonnes by last year - half its peak level - as ownership transferred to farmers and estates were returned to former owners. One investor is the Commonwealth Development Corporation (CDC), in partnership with the UK's James Finlay plc, it has invested \$15.5m, a third of its Ugandan portfolio, in the six privatised tea estates that make up Rwenzori Highlands Tea.

When CDC staff first arrived they found bushes had grown to 40 feet. It will take some years to recover from such neglect. "The quality will never be amazing but there is huge potential for high yields. But so far we are not getting much return on Rwenzori," says Brian Peris, CDC's country manager.

While Uganda recently benefited from its reliance on one crop, the coffee boom underlined its vulnerability to dramatic price swings. There is a growing realisation that Uganda must exploit the opportunity offered by its fertile soils to diversify.

Exports believe the future lies in exports of maize, beans, fish products, fresh fruit and hides and skins. The value of such non-traditional exports rose 65 per cent last year, according to the World Bank. It is expected to more than double between 1994 and 1998, to over \$106m.

Cotton: by Michela Wrong

Object lesson for investors

Uganda exported 470,000 bales in the early 1970s compared to 33,000 bales last year

For those tempted to invest in Uganda, Bruce Robertson's tale is something of an object lesson, highlighting the potential pitfalls and possible rewards of venturing into the under-exploited agricultural sector of a country as it opens to the outside world.

The young South African businessman, managing director of Africa Resources Ltd, arrived in Uganda last year with less than \$1m to invest in an export-oriented agricultural venture. He soon decided the long-neglected cotton industry offered the greatest promise.

Once one of the world's biggest cotton producers, exporting 470,000 bales in the early 1970s, Uganda produced 33,000 bales last year. Now liberalised, the sector had been crippled by civil strife, an inefficient marketing board and poor management by co-operative unions which failed to pay their farmers.

Impressed by the govern-

ment's open exchange rate policy, its record of political stability and an investment code that promised zero tax for the first five years, Mr Robertson singled out two ginneries in the eastern district of Pallisa.

The Iki-Iki and Kabele ginneries had been rehabilitated in the 1980s and were in good condition. One was working only at a fraction of capacity and the other had not operated for three years. The North Bukedi Co-operative Union responsible for them was bankrupt, owing money to the banks, farmers and its workers.

Advised by Uganda's Investment Authority and Cotton Development Organisation, Africa Resources offered to pay off and take over the union's debts as part of a joint venture. A memorandum of understanding was drawn up and the deal appeared ready to steam ahead.

But a rival suddenly appeared on the scene. Alerted to the enormous potential of the ginneries, the rival drew up a similar deal to Mr Robertson's, added 10 per cent, and offered union officials sweeteners to clinch a rival deal.

"I returned to sign and found

they had stolen my contract from under my nose," says Mr Robertson. It seemed a familiar chapter in the typical African business saga - sleaze factor sends naive foreign investor packing.

It was at this point that Mr Robertson's decision to go through official channels rather than taking short cuts paid off. He complained to the Ugandan Investment Authority and they intervened. All memorandums of understanding were cancelled and the union was told to put rival offers to a members' vote.

Mr Robertson spent weeks in Pallisa going from door to door, explaining his plans to farmers. "The rival group lobbied the president and the minister, but it didn't spend a day in the district. On the day of the vote the farmers opted unanimously for me."

The fight was not over. As the deal was finalised, the rival group continued to put intense pressure on union officials and the district commissioner to switch sides.

"On the very day we signed union officials were being approached in their hotel by men offering brown paper bags of money. It was a hell of a



Bruce Robertson examines cotton at one of his ginneries

tense process. But the fact a vote had been held made it impossible for those involved to go back on it."

The ginneries started operating under new management last December and are now buying from 10,000 farmers, distributing \$15,000-25,000 cash daily through a network of primary buyers.

For farmers who had not been paid in cash since the 1980s, the sudden inflow has been a tremendous psychological boost.

The first crop was a disappointing 3,500 bales, but Mr Robertson confidently predicts next year's crop could reach 15,000-20,000 bales. "This season we had to prove to farmers

we were serious, around to stay and we paid cash. There are 56,000 farmers in Pallisa and every one now wants to grow cotton."

The ginneries are working six days a week and Africa Resources believes in three years' time it could net \$2m in profit on turnover of \$12m, not a bad return on a \$1m investment. It has been exporting to Japan, Taiwan, Kenya and Germany and the Japanese are so impressed by the cotton's quality they are considering buying the whole crop.

Mr Robertson believes his story illustrates the importance of going through official channels when investing in a country such as Uganda.

Aids-related diseases: by Michela Wrong

Army major works a minor miracle

The statistics make bleak reading - 450,000 Ugandans dead, probably 1.5m infected

When Ruranga Rubaramira, a major in the Ugandan army, discovered he had tested HIV positive after contact with a girlfriend who has since died of Aids, he debated whether to tell his colleagues. "I thought, I can keep quiet. But even if I keep quiet, I will die. So why die without having first done some good?"

The major not only told his superiors, he volunteered to start counselling fellow sufferers. Seven years later, the 48-year-old infantryman has become something of a national celebrity, appearing on television to advertise an Aids helpline, answering radio listeners' questions on a medical programme and helping to run a centre in Kampala testing Aids drugs.

"Everyone seems to know

me," he acknowledges. "Maybe that is because I have revealed many things other people wouldn't."

His aim, he says, is to destroy the social stigma still associated with Aids that leaves sufferers so depressed, anxious, ashamed and self-obsessed they take few steps to prevent others being infected.

In future accounts of the history of Aids in Uganda, Major Ruranga and the many others like him may be credited with working a minor miracle. For the latest exciting evidence suggests HIV prevalence is finally falling, the result, scientists here suspect, of a fundamental change in sexual behaviour triggered by a public campaign that has been often breathtaking in its frankness.

Where other African leaders have either skirted the problem, denied its existence, or succumbed to browbeating by the Roman Catholic church when it comes to recommending contraceptives and family planning, President Yoweri Museveni realised that open-

ness was the most effective weapon against Aids in a traditionally conservative society.

On the main airport road into Kampala, huge billboards recommend abstinence, fidelity and condom use and warn against the lustful feelings generated by alcohol. A total of 600 local non-governmental organisations offering advice and support to the afflicted are registered with the Aids Commission.

"Capital doctor," the radio programme Major Ruranga talks on, offers blunt advice on sexual practices and dispels sexual myths, while "Straight Talk", a monthly supplement aimed at the adolescent market which appears in Uganda's main newspaper, tackles problems ranging from date rape to vaginal discharge.

"We have found that simply talking about sex is not enough to combat Aids," says Catherine Watson, Straight Talk's technical adviser. "You have to be detailed and you have to be explicit. It's true that it's not normal to talk

about penises and masturbation. But these are not normal times."

The programmes and the campaign as a whole are targeted at the group considered most at risk - those between the ages of 15 and 25.

The aim is to raise the average age at which most Ugandans first have sex from the present 15 to 18, increase contraceptive use and faithfulness to partners and encourage girls - five times more likely to catch the virus than boys - to take control of their own sexuality. Aids experts believe it is the behaviour of this section of the population that now lies behind the latest interesting statistical trend.

At an international Aids conference staged in Kampala last December, Ugandan scientists revealed that blood samples taken from pregnant women in 1995 had shown HIV prevalence, which showed signs of stabilising in 1992/93, was now actually decreasing in urban areas and holding steady in the countryside.

While stressing more studies are urgently needed to show what precise factors lie behind the trend, experts believe a change has taken place. "Surveys suggest that urban youngsters in particular are behaving differently," says a health ministry official. "Their knowledge of Aids is very high, they are sticking to regular partners and they are using contraceptives. The young are learning the lessons of the past."

If the latest trend continues, recent projections that saw average life expectancy falling to a horrific 32 by 2010 and more than 2m Ugandans either HIV-positive or dying of Aids by 1996 could be wrong-footed.

The facts still make for bleak reading: some 450,000 Ugandans already killed, a probable 1.5m infected, whole families wiped out, devastated rural communities where the number of plots is shrinking, agricultural output falling, orphan numbers rising and labour in short supply because the women who tended the fields are dead.

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4 UGANDA

Tourism: by Anna Borzello

Visitors are starting to make their way back

Uganda's tourism master plan seeks to avoid mistakes made by its neighbours

Aids and Idi Amin are what most foreigners associate with Uganda, and neither mental image leads to eager enthusiasm for a visit. Despite such handicaps, tourism is now the fastest growing section of the economy, rising 18 per cent a year. In 1995, tourist arrivals reached 176,000, the level originally projected for 2002.

The figure represents an impressive turnaround. In the early seventies, Uganda's tourism industry matched that of neighbouring Kenya. It was then the country's third largest foreign exchange earner, with 85,000 annual visitors. Then the megalomaniac Amin seized power and everything changed.

Most of the industry was run by Asians. Amin expelled them in 1972 and distributed their properties to his followers, who ran them into the ground. But the widely-reported atrocities of his regime were a stronger deterrent than poor cuisine or dirty sheets.

The decline was sealed during the "liberation war" of 1979, when invading Tanzanian forces went on machine-gun killing sprees in the game parks, slaughtering wildlife for sale on local markets.

Poaching became commonplace. A hippo is large enough to feed a village and tastes a little like pork. Thousands of elephants in the Queen Elizabeth and Murchison Falls national parks, living up to their reputation for intelligence, sized up the situation and crossed into Zaire.

Although tourist numbers climbed slightly in the early eighties, the industry only began to revive when President Yoweri Museveni took power in 1986. Seeking to escape dependence on coffee

exports, the government pinpointed tourism as a key source of foreign exchange.

In 1990, Uganda's Tourism Master Plan - drawing on lessons learned from 20 years of global mass tourism - set out to target the high spending, low-impact "eco-tourist" who brings in money without damaging the environment.

In drafting its plans, Uganda has regarded its more commercialised neighbour, with its saturation game viewing and environmental degradation, as a salutary lesson.

"We really want to avoid mass tourism. We don't want to be like Kenya," says Ignatius Nakishero, marketing manager of the Uganda Tourist Board.

By-laws dictating what buildings can be constructed within the national parks are aimed at ensuring that the ugly hotels that blight scenic spots in so many developing countries never spring up.

The emphasis is on local participation and revenue sharing, key to long-term development. Uganda National Parks has promised that 12 per cent of park profits will be distributed to the local community, with 24 per cent going into a central pool to benefit less successful parks.

Unfortunately, this requirement is not yet practicable, given that Bwindi Impenetrable National Park, whose mountain gorillas are the country's biggest tourist drawcard, and the Mgahinga gorilla national park are currently the only ones operating at a profit.

While last year's tourist figures suggest a staggering success for the plan, they are somewhat misleading.

"About 80 per cent are on business or visiting family," a senior ministry of tourism official says. "Only 20 per cent are holiday makers and only a handful are high-spending tourists."

Most are backpackers and overlanders, tolerated as path-



Mountain gorillas: Uganda's biggest drawcard in a fast-developing tourist sector

Photo: Christopher Tomlinson

breakers for wealthier custom. Hampering development is the lack of a skilled workforce and a creaking national infrastructure.

Middle-income visitors may quibble over poor food, slow service and cold water in the lodges but backpackers have more basic complaints - simply getting to Kidepo or Murchison Falls, parks in the north and north-east, can be a problem, particularly since there

has been a recent upsurge in rebel activity.

"People here need to realise that we must be a little more professional," said Geoffrey Zombo, president of the Uganda Tourist Association.

Although animal numbers are steadily rising, those accustomed to the easy game viewing on offer in South Africa and Kenya will find Uganda a challenge.

At Queen Elizabeth, where

the lakeside Mweya Lodge is about to undergo a \$4m renovation under its new Asian owners, hippos trot gracefully past bedrooms at night. But the elephant population, which has risen to 1,100 from 150, can be more elusive and a game drive exposed little more than a few waterbuck.

Future expansion is bound to benefit from last year's relaunch of the East African Community grouping Kenya,

Tanzania and Uganda, which holds potential for both the development of Lake Victoria, a shared asset, and the region as a whole.

"East African co-operation will enable us to penetrate new markets. We can sell ourselves as a region as we did in the sixties and seventies," said Mr Nakishero. "I hope from now on we will learn to look at each other as allies, and not competitors."

Politics: by Michela Wrong

Heat is on as election looms

The ferocity of the rhetoric from both sides has sent jitters through the business community

As the days tick by in the run-up to Uganda's first presidential elections, the country's western donors may well be wondering whether President Yoweri Museveni was right all along.

The former rebel leader's line was always that multi-party democracy risked shattering the fragile national consensus behind his "no-party" political system, lifting the lid off the tribal tensions that tore Uganda apart under dictators Idi Amin and Milton Obote.

Ten years into his rule, that contention held increasingly little weight with foreign governments who argued it was time Uganda, darling of the aid world, began to meet democratic standards demanded of other African states.

But in the countdown to the May 9 polls, the ferocity of the rhetoric coming from both sides and its strong tribal undertone has surprised many and sent jitters through the business community, highlighting the tenuousness of the country's grip on peace and prosperity.

Rallies staged by Paul Ssemogerere, the candidate championed by the two main opposition parties, have been broken up by the security forces and supporters beaten up. Access to the media by the opposition, whose candidates are obliged to run as individuals, not party representatives, has been limited.

"There is no level playing field," complains Professor Patrick Rubalayo, co-chairman of the committee co-ordinating the Democratic Party (DP) and Uganda People's Congress (UPC) campaign. "We didn't expect much, we know who we were dealing with, but we have still been surprised by the level of violence."

The rising temperature is a measure of the concern felt by the National Resistance Movement (NRM), which has gone from anticipating a walk-over for Mr Museveni to suspecting Mr Ssemogerere, a 64-year-old former cabinet minister, might just stand a chance of victory.

In a rare development in Africa, two opposition parties have succeeded in paparing over their differences and are fielding not only a single candidate for the top post but joint candidates for parliamentary elections due in June. The strength of the unlikely union between the UPC, whose leader, Mr Obote, abolished the traditional monarchies of the south, the DP's main constituency, has been a surprise.

Also hurting Mr Museveni are the increasingly damaging attacks in the traditionally pro-

opposition north carried out by the Lord's Resistance Army, a rebel movement that has made the president look ineffectual and highlighted his failure to develop the impoverished north.

As the three candidates - Mr Museveni, Mr Ssemogerere and Muhammad Mwanja (considered an also-ran) - do their work on the hustings, the opposition is already accusing the NRM of preparing to fiddle the ballot.

But many analysts believe Mr Museveni can win legitimately because of the enormous credit he still enjoys across the country for bringing peace.

A recent survey by the pro-opposition newspaper, The Monitor, showed that while most of those questioned believed Mr Ssemogerere had better policies, they would vote for Mr Museveni because they believed only he could command the army's loyalty.

On polling day, doubts about the credibility of the opposition alliance, and fears the UPC intends to bring Mr Obote back from exile, could also make voters opt for Mr Museveni's unexciting "no change" slogan.

Even if Mr Museveni gets his popular mandate, the nature of Ugandan politics appears to have passed a turning point well ahead of the referendum due in 2000 to decide whether the country abandons the "movement" system in favour of multi-partyism.

Analysts predict, the NRM, which enjoys an 80-85 per cent majority in the current governing council, will see this shrink to around 60 per cent in the parliamentary polls.

Given the bitterness of personal exchanges seen during the electoral campaign, future accommodations between Mr Museveni and Mr Ssemogerere now appear impossible.

"The coalition system is dead, it is shattered," says Charles Onyango-Obbo, The Monitor's editor. "The NRM has lost its traditional claim to legitimacy, which was that it was inclusive and eliminated tribalism. It has exchanged that for its record on peace and the economy."

With the NRM's role as an all-embracing body standing above tribal affiliation at an end, a future of confrontational politics on ethnic lines beckons.

Some welcome that scenario, arguing the electoral campaign has merely exposed the truth behind the hypocrisy of the "no-party" system: an army, administration and ruling secretariat dominated by members of Mr Museveni's western Ankole tribe.

"This has been a tribal domination from the start," insists Mr Rubalayo. "There never was a national consensus." But the system, however hypocritical, has one thing to its credit: a decade of peace in one of Africa's most troubled nations.

Business guide

As a country in transition, Uganda can seem to the visitor a puzzling juxtaposition of high-tech modernity and rudimentary make-do.

Sharp-suited local businessmen sport mobile phones, tap the Internet and discuss Reuters prices. But credit cards are useless outside Kampala, phoning 50km east of the capital often impossible and bureaucracy sometimes seems a throwback to a pre-colonial era.

Sabena, Air France, British Airways and the new Alliance Airlines now link Uganda with Europe. The airport is at the old colonial base of Entebbe, a 45-minute drive from Kampala, either by taxi (\$25) or in one of the buses offered by the city's hotels. Airport tax on departure is \$20.

Until recently, hotel choice was restricted to the

conveniently-located but expensive Sheraton. Several four-star hotels now offer similar services at lower prices. Alternatively, the city centre, outside the Diplomat, has a more intimate atmosphere.

Telephone rates, once among the highest in the world, are reasonable, but hotels still charge astronomical prices for calls. It may be more convenient to hire a mobile phone from Celtel on 290110. Lines to Kampala and international destinations are good but dialling upcountry, even as close as Jinja, requires patience.

Taxis, available at hotels or on street corners, can be hired for the day for around \$50. The boom has turned traffic jams from a rarity to a twice-daily event. Car hire is an expensive alternative: a four-wheel drive

costs up to \$100 a day, with mileage and fuel extra.

Most travel agencies and car hire firms refuse credit cards. Shillings and foreign currency can be bought with Amex or Visa at Barclays Bank and money can be changed at banks, forex or licensed hotels and travel agents.

Ugandans have a less urgent sense of time than Europeans and appointments often run late - particularly if it is raining. This can be frustrating if the appointment is 45 minutes away in Entebbe. Swapping calling cards is an established ritual and business attire is formal.

Many foreigners have invested in restaurants and Kampala now has a choice for diners. The best are Indian -

try the Maharajah near the Speke Hotel - or Chinese - Fang Fang and Shanghai. The Swiss House offers fondue and the Sheraton's Lion Bar serves Ugandan food.

For entertainment, the National Theatre shows English-language plays, notable for their vociferous audience participation. There are a handful of nightclubs and casinos, most frequented by call girls. As Uganda has among the highest level of AIDS in the world, prostitutes are likely to be HIV-positive.


For long weekends, Queen Elizabeth National Park and the delightful Mweya Lodge are a five-hour drive, or short private flight, from Kampala. The country is dotted with air strips for those interested

in charters. A trip to the mountain gorillas in Bwindi Impenetrable National Park, one of the wonders of the world, needs to be booked in advance. Most parts of the country are safe for travellers but it is now worth checking for northern destinations such as Oulu before setting out.

Useful telephone numbers (Kampala unless otherwise indicated): International code: 256; Kampala (0) 41, Entebbe (0) 42; Hotels: Kampala - Sheraton 244590, Equatoria 257780/9, Grand Imperial 260681/3, Nile 263900/9, Diplomat tel/tax 267625, Entebbe - Lake Victoria 042 2064/6; Airlines: British Airways 256695; Sabena 334201; Air France 242507; Alliance Airlines 244011; Uganda Airlines 233690; Kenya Airways 236948; Egypt Air 241278. Charters: Eagle

Aviation 042 20601 or 234282; Tropical Airways 230829; Banks: Barclays 232694; Uganda Commercial Bank 234710; Standard and Chartered 231473. Banking hours: 8.30-14.00. Useful contacts: Uganda Investment Authority 251562; Uganda Manufacturers' Association 220285/245560; Commonwealth Development Corporation 235784; Development Finance Company of Uganda 256125; Bank of Uganda 233672; Finance Ministry 234700; Trade Ministry 331104. Car Hire: Phoenix (tel 266086) is one of the few to accept Amex; Avis 267286; Vacational Tours 234606. Embassies: UK High Commission 267054; US 259791; European Union office 283683.

Anna Borzello




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سكوا من الاصل

Cinema/Nigel Andrews

Fascist view of the usurper king

When I first saw *Richard III* at the Berlin Film Festival I had an outbreak of defensive bardsolatry. It was probably the spirit of my surroundings. In Hitler's city it seemed a touch glib, not to say tasteless, to have Shakespeare's play dragged up - in all senses - with jackboots, SS uniforms, Lugers and red-on-black fascist regalia.

Second time around, an eerie charm and richer resonance issue from Sir Ian McKellen's usurper king, a smarmy bloodhound with Vincent Price mustache and cod-Sandhurst accent. We admire his wit and his timing (comical and murderous-political). And we applaud his gymnastic agility with his one unwithered arm, even though I missed the higher virtuosity with which he used to unbutton and doff entire jackets in the original mod-dress National Theatre production by Richard Eyre.

McKellen and director and co-writer Richard Loncraine push the play, only slightly screaming, into a 1930s England shot in saturated colours and rearranged by computer graphics. St Pancras station, playing the royal palace, stands on the River Thames. The Brighton Pavilion stands on the seafloor. And Battersea Power Station stands almost everywhere, its white boar-tusk chimneys representing every House of York power base from the Tower of London to Bowsworth Field.

Perists may sniff at some silliness: like the casting of Robert Downey Jr as the Queen's American-accented brother. (He gets stabbed through a mattress just like the *Friday* The 13th teenager he resembles.) The Queen herself is Annette Bening, also American and also struggling. Surrounded by born-to-the-bard actresses like Maggie Smith and Kristin Scott Thomas, hauntingly pool as a Lady Anne prone to wander into morgues and "shoot up"

in the back of Imos, Bening tries speaking loudly and bossily. But that is what Hollywood lady executives do, not English queens.

Elsewhere, for all its grander set-moments - the opening tank bursting through the wall, the final toppling of Richard into hell's flames - this *Richard* is best when it is quietest. McKellen hickering patiently with John Broadway's owlish Buckingham as they watch the grainy black-and-white newsreel that

RICHARD III
Richard Loncraine

THE BIRDGAGE
Mike Nichols

SAFE
Todd Haynes

COPYCAT
John Amiel

is all we see of Richard's coronation. (There is a bridge-saving ingenuity far you.) Or best of all, Richard saving the second half of his "Now is the winter" soliloquy for that quiet place where we can all be alone with our gulls and schemes and thoughts. The loo.

As *La Cage Aux Folles* it was a French stage comedy, a French film and a Broadway musical. As *The Birdgag* it is an identity crisis masquerading as a movie. Screenwriter Elaine May and director Mike Nichols, who once wowed the nightclubs as a comedy act before splitting up to make movies, have been seized on in this their first screen collaboration by a Great Idea.

Let us set the story (they no doubt unisoned) in outrageous South Miami Beach. And let us make the stuffy father (Gene Hackman) of the girl who is to marry the son of the gay nightclub-owner (Robin Williams) - who (Williams) must clear his

apartment of gay knick-knacks and a screaming-queen boyfriend (Nathan Lane) before we can see the dinner - let us, we say, make that father a gun-ho "family values" senator. It would be so topical for pre-election America in this year of our Lord and Bob Dole and Pat Buchanan, 1996.

Senator Hackman, who has been lured by his daughter's assurance that Williams is a respectable diplomat, would not wish to be seen dead or alive in an all-male love nest. But the paparazzi are already baying outside the door and the gay houseboy is already baying inside the door. And the irrepressible Mr Lane must render *deus ex machina* service by donning wig and frock to play the missing "mother". And yes, finally, Mr Hackman must find his own way of "coming out".

Do we sense trouble when a film can only be described with quotation marks? Though its comedy is alternately coy and crass, *The Birdgag* has been a hit in the US, where audiences who chortle at gay stereotypes have found it funnier than *Thanks For Everything, Julie Newmar*. But since a blow with a brick would be funnier than that film, this seems scant commendation for a movie overwrought, overacted and over only after a painfully long two hours.

No one "comes out" in Todd Haynes's *Safe*. Indeed not since *The Fly* (original version) has a leading player disappeared into a movie's scenery more completely, or more memorably. Julianne Moore plays Carol White, a cleaner-than-clean Los Angeles housewife who snubs, during two hours of coughing fits and initially genteel panic attacks, to full-blown "20th Century Illness".

That is the condition in which, put simply, you are allergic to everything. Ever, it seems here, to *having* everything. Carol lives in a home out of "House Beautiful", has a

caring husband and model child and defies Smog City with aerobics and healthy eating. Yet by the close she is hunched in a clinic, beating sparrow-like against her fate inside her own bubble-shaped germ-insulation chalet.

Since this director made *Poison*, that aly triptych whose central story spoofed the 1960s Hollywood killer virus movie, we sniff excitedly for double meanings. We suspect that Haynes suspects that this illness is at worst imaginary, at best wondrously emblematic.

For like another Haynes heroine, anorexic singer Karen Carpenter who was played by a Barbie doll (sic) in his mock-

umentary feature *Superstar*, *Safe*'s heroine is a human figure in search of a soul. Her illness may be a symptom of the loss, or of the eroding anxiety of the quest.

Some viewers complain of too much neutrality. Carol is so passive. The soundtrack is so quiet. The camerawork is so cosseting. We keep expecting a soothing voice to say, "Time for your medication, Mr (or Miss) Audience."

Yet the lush antiseptic visuals, out of 2001 by *Imitation of Life*, harbour their own sardonic gems. Look at the wall of balloons bobbing like giant bacilli at Carol's birthday party. Look at the luxury bed-



Smarmy bloodhound with a cod-Sandhurst accent: Ian McKellen as Richard III, updated to the 1930s

room that gets vaster, or seems to, with each new stage in Carol's marital ennui.

Look too at Moore's performance - that squinty stare that comes from a lifetime of emotional finching, that poised inaction, that stance on the verge of crumpling into the rag-doll. This is the summation of a century's mamequin Hollywood manners: of beauty as social requirement, of perfect toiletry as perfect torture.

Copycat (opening next week) is another form of perfect torture. Take two fine actresses, Holly Hunter and Sigourney Weaver, and throw them into an oblique plot about serial

killers. Hunter plays the San Francisco police detective seeking a multiple slayer. Weaver is the agoraphobic lecturer on serial murder, who has pointed herself inside her apartment ever since the day a real killer tried to give her a practical demonstration.

For someone public about wide open spaces she has a nice taste in picture windows. Probably any psychopath in California could spy on her through that square mile of double glazing. But then that is what the plot requires. A heroine in jeopardy, the last scene shadow in the doorway, the noisy crescendo of contrivance and coincidence.

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For the third time this year, and as on several other occasions, in recent years, the Almeida Theatre in London's Islington has come up with (much) the best verse-speaking in London. First was Craig Raine's 1993, in Patrick Marber's production of what the wedding of metre, rhyme, naturalness of utterance and high tension of pacing was of the rarest order.

Next, though only for a single performance on Maudy Thursday, was Irene Worth, who presented her account of working on the original production of *The Cocktail Party* with T. S. Eliot, in which she delivered speeches from her own original role and others.

Now the Almeida's two artistic directors, Jonathan Kent and Ian McDiarmid, have given us a new production of Molière's *Tartuffe*. Kent directs, McDiarmid takes the central role of Orgon, and the verse is alive. The way the cast negotiate the rhymes is especially refreshing. The actors use them to add tension and rhythm to a line, frequently lift their voices up to hit them, and never like leaden weights. And the rhyme lends an extra stress to the metre that gives buoyancy to each and every line. This has much to do

Theatre/Alastair Macaulay

A well-versed but lightweight Tartuffe

with the 1968 translation by Richard Wilbur, in which natural ebullience of spirit and formal control of style are, as in Molière, beautifully allied.

Since the verse lives, so does the play. It is fun to follow these people expressing themselves. The tension between the babbling spontaneity of these characters (most of them exacerbated by the hypocritical schemings of the loathsome and sanctimonious Tartuffe) and the polished delivery of their verse becomes delicious.

This *Tartuffe* has other virtues, too. It is a sort of sequel to Kent's excellent 1994 Almeida staging of *The School for Wives* (also using a Wilbur translation, and with McDiarmid in a central role). Like that, and again like many Almeida stagings, it is most handsomely designed. Rob Howell's set is compelling: a grandly elegant, French baroque interior conceived, surpris-

ingly, on a spiral. His costumes, without fuss, are perfectly in period and in character. All the actors hold the eye well. And this *Tartuffe* is, as it should be, funny.

The word "style", in the lazy sense which people often use it to denote an alluring surface impression, is what this *Tartuffe* - and, again, the majority of Almeida productions - is all about. The accomplishment of the delivery of the visual and aural attractions of everything, the finest and communicative pacing of the action, the vividness of characterisation: all these honour the best British traditions of theatre as few other houses and productions do today.

So I am reluctant to admit that I find this *Tartuffe* lightweight. It passes happily and, having passed, leaves no trace in the mind. What this means is that the Kent/Almeida conception of style is here, as often enough in other productions, too

Concert/Adrian Jack

Mutter and Orkis

The violinist Anne-Sophie Mutter is on a recital tour of 16 European cities with the pianist Lambert Orkis. They reached London's Barbican Hall on Friday and were greeted by a capacity audience. Mutter is always good to watch: elegant and gracious, and at one with her excellent partner. She played a demanding programme entirely from memory and did all her tuning off-stage.

Her programme was almost two recitals - the first half serious, the second entertaining. Brahms's youthful, fiery *Scherzo* in C minor was followed by Bartók's Second Sonata, sensibly placed early in the evening when the audience's powers of concentration had not weakened. It was a fine, passionate performance of an astonishingly fertile, deeply moving work, which made Beethoven's Sonata in G, Opus 30 no 3, seem all the more innocent and charming afterwards.

The dominating personality after the interval was the glamorous Spaniard Sarasate, whose own playing inspired so much music by other composers. His outrageously seductive *Air bohémien* and spectacular *Carmen Fantasy* were separated by Wieniawski's atmospheric, gently brooding *Legend* in G minor - no lack of warmth from Mutter here. As for the flood of soulfulness on the violin's lowest string and fireworks spitting and sparking across the others in both Sarasate medleys, Mutter was on perfect form.

The *Carmen Fantasy* relegated Lambert Orkis very much to the role of scene-setter, but he came unexpectedly into his own with his resounding, mock-pompous announcements of the three encores which tickled everyone including Mutter. For the record, they were Brahms's Second Hungarian Dance, the *Hoe-Down* from Copland's *Rodeo*, and a Hellet arrangement of Debussy's song, "Beau soir", whose creamy, muted melody sent us floating home on a cloud of contentment.

The dominating personality after the interval was the glamorous Spaniard Sarasate, whose own

Opera

Tosca to the rescue

Whenever a production is cancelled at Covent Garden, there is always *Tosca* waiting in the wings. The last opera this time was *Il corsaro*, which had promised to be one of the most attractive offerings in this year's Verdi festival. This is already the third time out of the stable this season for Zeffirelli's old staging and with the right cast it still works.

The three principal singers this time are hungry to score a success in it. Nelly Miricioiu has not sung at Covent Garden as much as she might have done. In the last 10 to 15 years she has won a significant reputation overseas in the early 19th-century Italian repertoire and Verdi's *Il corsaro* would have suited her perfectly, but the change of plan now leaves her with a less comfortable role of Tosca.

Miricioiu sings as though she believes that her voice is not big enough for the part in this theatre. The evening is split between quiet moments, where she is able to phrase with the beauty of sound she brings to Bellini and Donizetti, and louder passages where she resorts to forcing the volume. Professionalism carries her through, bolstered by her keen understanding of the words. Her *Tosca* is an artiste down to her fingertips, the kind who turns every wave into a theatrical event.

Her Caveradosi is José Cura, who is temperamentally at the other extreme naturally as she is affected. Like all three of the principals, he was originally intended for the Verdi and this Puccini is as yet on the heavy side for him. It was not until an exultant cry of "Vittoria" in Act 2 that he gave the full force of his voice to the audience. What promises to make him a special performer is his determination not merely to play the star tenor on stage. For "L'Inceppo le stelle" Cura does not parade up and down emoting. He simply sat slumped at a table and sang with infinite tenderness, as if just for himself.

That freshness is shared by Anthony Michaels-Moore's chilling Scarpia. In theory, this opera should be too heavy for him as well and, even after hearing him make such a confident job of it, I am not sure that the role is one he should be singing every day. It would be a shame if his beautiful lyric baritone were to have its youthful sheen turn on Scarpia's treacherous vocal barbs. But everything about his performance is already alive to the dramatic possibilities of the role.

All three were newcomers to their roles at Covent Garden and trying to secure the safe hands of Edward Dowling in the pit. Despite some moments when the tension flags, he is a more idiomatic conductor than others we have been subjected to recently. This was the 376th performance of *Tosca* at Covent Garden. May the next hundred or two be as unbacked.

Richard Fairman

Performances until May 11.

INTERNATIONAL ARTS GUIDE

AMSTERDAM
CONCERT
Concertgebouw
Tel: 31-20-5730573
● Radio Kamerorkest and the Grote Orgelgroep with conductors Ton Koopman and Pieter Eijkvoles perform Haydn's Symphony No.99 and Heiligmesse, and Lutoslawski's Partita and Musique funèbre, in Memoriam Bartók. Soloists include violinist György Pauk, soprano Barbara Schlick, alto Christa Pfler, tenor Christoph Prégardien, and basses Maarten Koningberger and Julian Hartman; 3pm; Apr 27

BASLE
EXHIBITION
Kunstmuseum Basel
Tel: 41-61-2710228
● Carito d'Amore. Klassizistische Moderne in Musik und bildender Kunst 1814-1935: exhibition focusing on classical modernism in music and visual arts. The display features more than 100 paintings, drawings and sculptures from international museum and private

collections, as well as musical scores from the collection of the Paul Sacher Foundation. The show includes works by Picasso, Matisse, De Chirico, Dalí, Bonnard, Matisse and Léger; from Apr 27 to Aug 11

BERLIN
CONCERT
Konzerthaus Tel: 49-30-203090
● Das Orgelwerk Johann Sebastian Bach: Organum con trombone; organist/harpichordist Joachim Dalitz and flutist Robert Lerch perform J.S. Bach's Concerto for Organ in C major, BWV 594, Sonata for Flute and Organ in E major, BWV 1035 and Sonata for Flute and Harpsichord in B minor, BWV 1030; 7.30pm; Apr 27

BIRMINGHAM
CONCERT
Symphony Hall
Tel: 44-121-2123333
● The Japan Philharmonic Orchestra: with conductor Jun'ichi Hirokami and pianist Andreï Gavrilov perform works by Mozart, Rachmaninov and De Falla; 8pm; Apr 26

BONN
CONCERT
Beethovenhalle
Tel: 49-228-631321

● Ensemble Florilegium; and cellist Pieter Wispelwey perform music by Von Potter and Haydn; 8pm; Apr 27

OPERA
Oper der Stadt Bonn
Tel: 49-228-721
● Fidelio; by Beethoven. Conducted by Steven Sloane and performed by the Oper der Stadt Bonn. Soloists include Kathleen McCalla and Alex Steblianko; 8pm; Apr 26

DUBLIN
CONCERT
National Concert Hall - Geoláras Náisiúnta Tel: 353-1-6711888
● David O'Doherty and Deborah Kelleher: the violinist and pianist perform works by R. Schumann, J.S. Bach and Ravel; 1.05pm; Apr 26

EDINBURGH
EXHIBITION
Scottish National Gallery of Modern Art Tel: 44-131-5588921
● The British Art Show 4: the Gallery of Modern Art is one of the seven venues in Edinburgh hosting this exhibition, presenting around 100 works by 28 contemporary British artists. The display features work in a variety of media, including painting and sculpture, but also gives prominence to the current interest in video projection, sound-based work and film installation; to Apr 28

GENOA
OPERA
Teatro Carlo Felice
Tel: 39-10-589329
● L'italiana in Algeri; by Rossini.

Conducted by Yoram David and performed by the Teatro Carlo Felice. Soloists include Sonia Ganassi, Ruggero Raimondi, Bruce Ford and Bruno Prati; 8.30pm; Apr 27 (4pm), 28 (3.30pm), 30; May 2, 3

LILLE
CONCERT
Nouveaux Siècle
Tel: 33-20 12 82 40
● Premières Rencontres Internationales de piano Robert Casadesu; with conductor Reynald Giovanetti and the Orchestre National de Lille. Soloists include the pianists Giovanni Bellucci, Evelina Borbel and Philippe Giusiano. The programme includes works by Mozart, Liszt, Saint-Saëns and Chopin; 8.30pm; Apr 26

LONDON
CONCERT
Barbican Hall Tel: 44-171-6388891
● The London Soloists Chamber Orchestra: with conductor David Josefowitz, soprano Jeni Bern, tenor Mark Milhofer, baritone Giles Davies, and pianists Dennis Lee and Chee-Hung Toh perform works by Mozart, Saint-Saëns and Prokofiev; 7.30pm; Apr 26

OPERA
London Coliseum
Tel: 44-171-8387111
● Orfeo; by Monteverdi. Conducted by Nicholas Kok and performed by the English National Opera. Soloists include Guy de Mey, Sarah Connolly and Neve Jones; 7.30pm; Apr 28

THEATRE
Barbican Theatre
Tel: 44-171-6388891

● The Taming of the Shrew; by Shakespeare. Directed by Gale Edwards and performed by the Royal Shakespeare Company. The cast includes Joelle Lawrence; 7.15pm; Apr 26, 27 (also 2pm), 29, 30

NEW YORK
CONCERT
Carnegie Hall Tel: 1-212-247-7800
● Orchestra of St. Luke's: with conductor Roberto Abbado and pianist John Browning perform works by Bartók, Mozart and R. Schumann; 8pm; Apr 27

OPERA
Metropolitan Opera House
Tel: 1-212-362-6000
● La Bohème; by Puccini. Conducted by Simone Young and performed by the Metropolitan Opera. Soloists include Angela Gheorghiu, Karita Mattila and Roberto Alagna; 8.00pm; Apr 27

PARIS
EXHIBITION
Centre Georges Pompidou
Tel: 33-1-44 78 12 33
● La Design japonaise 1950-1985: the exhibition focusing on the contribution of Japan to contemporary design. The display also shows the changes the Japanese way of life and technology have gone through over the last few decades; to Apr 28

THÉÂTRE du Châtelet
Tel: 33-1 42 33 00 00
● Elektra; by R. Strauss. Conducted by Daniel Barenboim and performed by the Deutsche Staatsoper Berlin. Soloists include

Deborah Polaski, Falk Struckmann, Reiner Goldberg and Gerd Wolf; 7.30pm; Apr 26

STOCKHOLM
OPERA
Kungliga Teatern - Royal Swedish Opera House Tel: 46-9-7914300
● Aida; by Verdi. Conducted by Maurizio Barbacini and performed by the Royal Swedish Opera. Soloists include Anders Lorentzon, Pauletta de Vaughn and Jerker Arvidson; 7pm; Apr 28

THE HAGUE
FESTIVAL
Haags Gemeentemuseum
Tel: 31-70-3381111
● World Wide Video Festival: 14th edition of this international festival, featuring more than 150 videos, CD-Roms, CD-I and Internet productions. Also 15 installations are displayed, including works by Irit Batsry, Beth B, Henning Lohner and Fabrizio Plessi; from Apr 27 to Jun 2

VIENNA
CONCERT
Konzerthaus Tel: 43-1-7121211
● Diana Vizvary and Raluca Stibrat: the pianists perform Brahms' Variations, Op.21, Fantasies, Op.116 and Sonata in F sharp minor, Op.2; 7.30pm; Apr 26

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COMMENT & ANALYSIS



Samuel Brittan

Comparisons are odious

The art of exploiting economic league tables for political purposes lies in the choice of indicator, period of years and countries under examination

Most advanced industrial countries enjoy similar advantages and face similar problems. Yet instead of confronting the latter boldly, politicians have an inveterate habit of focusing on small differences between one country and another and claiming that these are what matter.

The countries of the European Union, for instance, are plagued by a common problem of high unemployment and under-used human resources. Whether one country has a slightly higher or lower unemployment percentage than another is much less important - and is in any case very hard to determine even after the best efforts of international statisticians.

Yet international economic league tables are still popular with politicians. They were first made fashionable by Harold Wilson in his days as Labour financial spokesman in the late 1950s. During the more rapid changes of government in the 1960s and 1970s a little less was heard of them. But they came back in the long boom of the 1980s, when they were used by the Thatcher government. Now Labour has taken up these tables again.

At the end of last year the party published an advertisement entitled World Prosperity League in which the UK was ranked as 18th. The caption said "If you'd slumped to 18th, wouldn't you get new management?" The remedies suggested were the expected mix of New and Old Labour.

In a Commons speech Mr Kenneth Clarke, the chancellor, retaliated with another league table provided by the Treasury. This showed the growth performance between 1981 and 1993 of a smaller number of countries, the Group of Seven leading industrial nations. Using estimates by the Organisation for Economic Co-operation and Development, it compared the low point of the earlier business cycle with the low point of the recent one. The results were more reassuring. Japan led

the league - its recent deflationary experiences came too late to affect the comparisons - but the UK tied with Germany for second place.

Accordingly, and with the indispensable help of Keith Fray of the Financial Times statistics department, I have tried to replicate the estimates of both the Labour party and the government. Contrary to what extreme cynics might suppose, they are both honest pieces of workmanship. But the politicians who inspired them were obviously interested in comparisons which showed British performance in respect of the worst and best light.

The Labour advertisement ranked countries by gross domestic product per capita measured at exchange rates adjusted for purchasing power parity - but without indicating how large the differences were. The estimates we obtained from the OECD corresponded closely to Labour's.

The main difference is that the 18th and 17th countries on

Labour's list, Hong Kong and Singapore, are not included as they do not belong to the OECD. But it is not worth quibbling over the matter. Who would want the repressive Singapore style of government for the sake of one or two dubious points on GDP? Or live like Hong Kong in the knowledge of an imminent takeover by the Chinese communists? In addition the full OECD list includes countries such as Turkey, Mexico and Greece which are still emerging economies. They contributed to the tail-end of the league, which Labour - quite legitimately - cut off.

It does not help the government if we follow the Clarke route and confine ourselves to the G7. For the UK comes out bottom of the G7, behind Italy which overtook the UK when its statisticians found a way of incorporating the black economy - an achievement known as "il sorpasso".

There are some puzzles in the GDP table. For instance Luxembourg emerges with a

much higher national income level than the US. The Grand Duchy is indeed a green and pleasant land (where the sun shines). But how much of its GDP is accounted for by the disproportionate number of European Union institutions and their personnel there - and by German banks taking advantage of the looser regulatory regime?

One also wonders if Austria really has a higher GDP per head than Germany and Italy, or a higher one than the Netherlands. But to push these questions is to put more weight on them than they can bear. The large EU countries are within an index range of 100 to 111.5, which puts them largely in the same ball park.

If, however, we follow the UK chancellor and turn our attention to rates of change, his estimates are also valid. There is a very slight difference in that Germany registered 2.1 per cent growth in the OECD estimates while the chancellor's 2.0 per cent. But this tiny discrepancy may well be a matter of rounding or revisions. In any case Germany's very sluggish recovery will by now have reduced its average long-run growth rate to Britain's rate, if not below.

It is the addition of more countries which really makes the British growth rate less impressive than in Mr Clarke's account. The UK growth rate was indeed higher than the European Union average and slightly higher than the average of the G7. But the inclusion of countries such as Ireland, Turkey, Portugal and Spain takes the UK down to ninth place in a league table of 25.

Here perhaps is the root of the matter. The countries which have grown most rapidly are those which have rather low absolute levels of GDP per head and therefore the greatest opportunities for catching up. The US, with the second highest per capita GDP, is below the middle of the growth league. Ireland which is well down near the

bottom of the GDP per head league, experienced the highest growth rate of all.

Portugal and Turkey, which have very low per capita GDP levels, are now high in the growth league. The UK has been a less extreme example of such catching-up. But, with the lowest GDP per head of the G7, it has had ample opportunities, some of which it has used. (It fell behind on the Labour computation partly because of the differing starting point.)

But let us not exaggerate. Even if the US were to stop growing altogether, it would take Britain about 15 years to catch up on GDP per head. Given actual growth rates, the catch-up process could take virtually a century.

These are of course only tendencies. Relative starting points do not explain everything. The blessed at the moment is near the top of the growth league as well as at the top of the GDP league. So is Japan; but that simply shows the folly of basic conclusions on comparative statistical studies which cannot really take in the record of the very latest years.

The serious discussion is not about the league tables. It is on whether Britain under the Thatcher government made significant inroads into union power, made labour markets more flexible and weakened the benefit culture - matters that other European countries have still to tackle. Labour is entitled to reply that any such gains were made at the expense of a shift to an American style labour market. This, it is said, not only squeezed the position of the poor, but increased anxiety all round and weakened the trust and loyalty necessary for long-term performance.

These matters need more than the space of an Economic Viewpoint for a proper airing. But by this stage the reader will hardly need to be told that my vote will not be decided by the league tables - or even by economic issues at all.

Two growth leagues

GDP per capita at purchasing power parity 1994, (UK=100)

Table with 2 columns: Country, GDP per capita (UK=100). Includes US, Luxembourg, Switzerland, Norway, Denmark, Canada, Austria, Belgium, Germany, Iceland, France, Italy, Netherlands, Australia, UK, Sweden, New Zealand, Ireland, Finland, Portugal, Greece, Mexico, Turkey.

Source: OECD

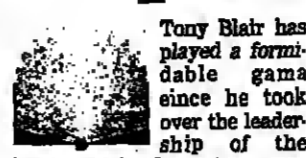
Real GDP per capita average annual growth rate 1981-93, (%)

Table with 2 columns: Country, Real GDP per capita average annual growth rate (1981-93, %). Includes Ireland, Japan, Luxembourg, Turkey, Portugal, Spain, Norway, Germany, UK, Denmark, Italy, Austria, Belgium, US, Netherlands, Australia, Sweden, France, Greece, Canada, New Zealand, Finland, Switzerland, Sweden, Iceland, Mexico, EU 15 av.

BOOK REVIEW Robert Peston

WHAT NEEDS TO CHANGE, New Visions for Britain Edited by Giles Radice HarperCollins, £14.99

The way out of a political vacuum



Tony Blair has played a formidable game since he took over the leadership of the Labour party almost two years ago. He has ditched much of the ideological baggage which made the party unelectable in the 1980s and enters what may turn out to be the longest general election campaign in history - with votes cast possibly as late as next spring - well ahead in the opinion polls.

But as Newcastle United football club knows well, an apparently decisive lead early in the season can evaporate. The Conservative party is a formidable election-winning machine and in the campaign's early stages it will launch an advertising blitz designed to re-energise the staid voters that Labour is the party of high tax and interfering government.

Mr Blair has pre-empted the negative campaigning by redefining his party in terms of what it is NOT. It is NOT controlled by the unions any longer; it is NOT the enemy of business. It does NOT believe in high taxes or high public spending. It is NOT on the left.

This approach has been coupled with ruthless control of the statements made by himself and the shadow cabinet. There should be no hint of disunity and no departure from agreed party policy.

As a result, newspapers and television have become obsessed with the mechanics of policy-making rather than the policies themselves. And there is a widespread perception that his shadow cabinet colleagues are less important than his media advisers, such as Alastair Campbell, his press secretary, and Peter Mandelson, Mr Blair's eminence grise.

or evidence of some sort of crisis at the top of the party.

It is also a problem in a second sense. Without a proper public debate, the party cannot hope to excite the electorate with a positive vision or win the battle of ideas.

Mr Blair is aware of the problem. "One of the most corrosive aspects of political campaigning is the use of negative campaigning which makes a rational discussion of serious issues difficult," he writes in the introduction to this collection of essays by journalists, politicians, academics and business people offering policy prescriptions for a new Labour government. "If somebody connected with the Labour party writes or says something controversial, then the Tories will misrepresent it, especially during the election campaign, as Labour party policy."

The contributors are a disparate bunch - many of them not avowed Labour supporters. They include Charles Handy, the management guru, David Sainsbury, the chairman of the supermarket chain, Stephen Tunnicliffe, the former chief inspector of prisons, Peter Hain, the politics professor and Whitehall historian, and Geoff Mulgan, director of Demos, the think-tank, and doyen of the younger generation of policy wonks.

Perhaps surprisingly, there is a consensus about problems and solutions. Disillusionment with politics and economic insecurity are the common themes. One remedy that runs through the collection is constitutional reform based on notions of subsidiarity, devolution and federalism, to give the electorate a greater sense that it has a voice. Another is an overhaul of the social security system to take account of the growth of part-time working, early retirement and the recurrence for many people of temporary periods of unemployment. Such reforms would also seek to end the pernicious division between families with two

breadwinners and the burgeoning number of those with none, discouraged from entering the workforce by the fear of losing benefit entitlements.

But if the book has a big idea, it is education and the opportunities for long-distance learning and personal tuition offered by harnessing information technology. A chapter combining idealism and practical recommendations is by Tim Brighouse, Birmingham's chief education officer. His blueprint for leapfrogging other countries' education systems is based on forming partnerships between different schools and between schools and parents.

However the book does not get to grips with the question of the cost of change. The authors generally eschew any plan with massive public spending implications, presumably knowing full well that Mr Blair would throw it out. But there are plenty of ideas which would circumscribe personal and corporate liberty in the interests of "social cohesion". Mr Blair remains vague on costs. He is unwilling to commit his party to higher tax rates and additional pensions contributions or to compelling companies to act in the interests of employees as well as shareholders.

This vacuum in a sense indicates the extent to which the Tories are still setting the agenda. In the 1980s voters were enraptured by individualism. Mr Blair still cannot be confident - in an atmosphere of disillusionment with all political parties - that they will now opt for a party which says that individual rights are matched by legally enforceable duties. This book, with its healthy mixture of utopianism and practical advice, may help to build that confidence.

What Needs to Change is available from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to "fax"), e-mail: letters.editor@ft.com. Translation may be available for letters written in the main international languages.

Case for a museum of architecture

From Mr Jeffrey Johns.

Sir, Your article concerning the exhibition of work of British architects at the Art Institute of Chicago closed by lamenting the lack of a museum space devoted to Chicago architecture ("Britain's finest pose challenge for Chicago", April 9). There are spaces that are devoted to this subject, namely the Chicago Cultural Center's architecture galleries and the Chicago Architecture Foundation Gallery, but a case can be made for significant space dedicated to a permanent exhibition on that subject.

In the meantime, Chicagoans and visitors will have to limit themselves to the originals. The Chicago Architecture Foundation, located in the Burdette Building at the Building (Railway Exchange) across Michigan Avenue from the Art Institute, offers more than 50 regularly scheduled architecture tours (some three times a day), with scores of special tours in addition. More than 100,000 participants are served by these tours each year. Indeed, one of the mottoes of the Chicago Architecture Foundation is "The city is our museum". No visitor will go unsatisfied by these walking (or bus, "E", bicycle or boat) tours.

Jeffrey Johns, trustee, Chicago Architecture Foundation, 55 East Monroe Street, Suite 4200, Chicago, Illinois 60603, US

Route for Berlusconi to quit politics

From Don Serafini.

Sir, Your analysis on the Italian election results ("Beneath the olive tree", April 23) is right on target, but not wholly accurate. If Massimo D'Alema, who runs the leftist PDS, could have proposed to carry out his plan that only recently he was able to advance, Silvio Berlusconi's conflict of interest could have been solved a year ago.

Privatisation of state-owned telecommunications enterprises will contribute to getting Berlusconi out of politics.

Once D'Alema has taken the necessary steps to protect Berlusconi's media empire, Berlusconi will bid farewell to politics for a chance to bid for parts of the state telecommunications group, including telephony and cable.

D'Alema TV reforms will also allow Berlusconi to give up his third TV network (it inflates his commercial time inventory without properly amortising his programme library) and will revitalise RAI.

Don Serafini, editor, Video Age International, 218 East 75 Street, New York, NY 10021, US

Out of touch with French economic reality

From Mr Don Montague.

Sir, Stephen Bezen and Mark Taylor, economists writing from an ivory tower in Bordeaux University (Letters, April 6), seem curiously out of touch with economic realities. The "minimum wage" in France is the SMIC horaire, defined as an hourly rate of compulsory social security contributions and holiday pay (i.e. nearly £9 an hour), not many people are likely to employ them other than "on the black". The fact that there are tax allowances for the cost of employing gardeners and home

worked in France also changed. Perhaps Bezen and Taylor should have consulted L'Institut de Triptotage. In a recent report, it pointed out that if the minimum wage you can pay a part-time gardener in France is FF36.98 an hour, plus nearly 80 per cent compulsory social security contributions and holiday pay (i.e. nearly £9 an hour), not many people are likely to employ them other than "on the black".

The fact that there are tax allowances for the cost of employing gardeners and home

helps little encouragement to the majority of the French, who are not liable to income tax anyway.

In the real world, if the minimum cost of hiring someone is set high enough, most potential employers will leave the job undone, do it themselves, or try to find someone to do it on the black at a lower rate. I do my own gardening.

Don Montague, Les Arbres, Seres-et-Montguyard, 24500 Eymet, Dordogne, France

Hard to alter pension pattern in Germany

From Mr Norman Bernard.

Sir, Your otherwise excellent article "The storm on the horizon" (April 9) stated over the third arm of pension provision in Germany, the book reserves held on companies' balance sheets. The firming and the actual level of these reserves are increasingly looking

inadequate for the employees but moves towards externally funded schemes are rare. We highlighted this in research we carried out with AMP (Asset Management) looking at corporate pension provision in Germany, Netherlands and the UK.

Corporations benefit from the tax shelter and cheap

captive funding. It will take strong measures to make them hand the cash over to external fund managers.

Norman Bernard, director, First Consulting, Vigilant House, 120 Wilton Road, London SW1V 1JZ, UK

No satisfactory way to amend clause in UK asylum bill

From Mr Sukhdev Sharma.

Sir, It was extremely heartening that the Financial Times, alone among the major broadsheets, reported "Plans for immigration changes attacked", April 17) the findings of the Glidewell Panel on the Asylum and Immigration Bill, followed by a leading article ("Whitewashing", April 18) which called upon the House of Lords to defeat this measure. The vote in the House of Lords on Tuesday

night was, perhaps, a first step towards this.

When you reported the government's response to the Glidewell Panel's strong criticisms of the bill, you included a comment from the Home Office that the Commission for Racial Equality is assisting the government in planning the implementation of the employment provisions. The commission has stated clearly and unequivocally to

the Home Office, to the Glidewell Panel and to MPs and peers, our opposition to the proposals in the Bill to make it a criminal offence to employ certain groups of "immigrants". We do not believe the clause in question can be amended or diluted in any way which will prevent it from increasing the barriers to employment for ethnic minorities.

If, however, parliament enacts the bill with such a

provision, then we would have a duty to advise the government as to how to minimise its discriminatory impact. To this end, we are giving preliminary consideration as to how this can be done.

Sukhdev Sharma, Commission for Racial Equality, Elliot House, 10-12 Allington Street, London SW1E 5ER, UK

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COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 3700
Thursday April 25 1996

Shockwaves for the MMC

Yesterday's decision by Mr Ian Lang, trade and industry secretary, to block two proposed takeovers in the electricity industry is one of the most momentous events in the history of UK competition policy. His decision is both bold and right. It will also have enormous effect on the industry's structure and ownership. Even more important, in rejecting the view of the Monopolies and Mergers Commission that the deals should be approved, subject to several conditions, Mr Lang has cast the role and competence of that body into question.

The bids by PowerGen for Midlands Electricity and by National Power for Southern Electric have been the most controversial in the wave of electricity takeovers. They would have integrated the large generators with regional distribution monopolies. There was concern that this could push up prices to customers and undermine competition in generation.

In taking the decision, the first time the government has blocked the takeover of a regional power company, Mr Lang said that the Office of Fair Trading and Office of the Industry Regulator, had recommended the bids be blocked, as had one member of the five-person commission panel.

Mr Lang said that he did not regard vertical integration as necessarily damaging. But at this stage of the industry's development, the deals would be against the public interest, for reasons identified by the commission.

One concern is that the deals could make entry by independent generators and suppliers more difficult. The takeovers, the commission says, would reduce the market for bidding supply contracts between generators and suppliers, and so expose them to greater financial risk than at present.

Questionable belief

The commission dismisses the widespread concern that a vertically integrated distributor would pass through higher generating costs to customers. Its belief that competition in generation is sufficient to prevent this occurring is questionable. But it does accept perhaps the most important concern: that the deals would make the regulator's job of supervising

distribution and preventing cross-subsidies far more difficult. Its suggested conditions - in particular, giving the regulator extra powers to monitor distribution - do not answer that worry.

For those reasons, Mr Lang has made the right decision. He is also right that the growth of competition in generation should remove some of the concerns. However, the difficulties in ring-fencing distribution and in securing the regulator's access to information will remain; he may therefore have been rash to imply that such deals may eventually be harmless.

Different path

The industry's restructuring will now continue on a different path. In particular, the way is now open for foreign takeovers of the generators; National Power is being pursued by the US utility Southern Company. Mr Lang is to be commended for not letting the political sensitivity of foreign bids affect his judgment.

He should now turn his attention to the commission. The government has already mooted a radical overhaul of the UK's competition policy and authorities in an intelligent and ambitious consultation paper last month. If the legislative timetable permits no progress on these measures, as seems likely, Mr Lang should tackle the commission's shortcomings directly.

The central flaw revealed by this episode is the pro-business instincts which MMC panels sometimes display, in putting the interests of "national champions" above those of consumers. The commission's chairman, Mr Graeme Odgers, who chaired this panel, has made clear his sympathy for the view that a large share of the domestic market can help a company compete abroad.

Commission panels should be comprised of people capable of assessing the complex issues of economics, law and public policy on which recommendations turn. They should recognise precedents set by previous panels. For Mr Odgers part, this debacle should prompt him to reconsider his apparently lukewarm interest in stimulating competition. He should reaffirm his commitment to that principle.

Germany turns to tri-apartism

Chancellor Helmut Kohl has staked his political reputation on finding a consensual route out of Germany's economic crisis. A few months ago it looked as though he might find one. But those hopes are fading fast.

Back in February, Mr Kohl's ability to broker a deal between employers and unions on the vexed question of pension reform was hailed as a sign of more to come. Against the odds, Germany's social partners could still resolve their differences when the long-term health of the economy depended on it.

The collapse, late on Tuesday night, of the most recent round of tripartite talks, aimed at agreeing urgently needed public spending cuts and at reforming workers' rights, puts this rosy outcome in doubt. Mr Kohl will do all he can to keep the three legs of the tripartite stool together, but both the trade unions and the employers seem increasingly determined to go their own way.

Mr Hans-Olaf Henkel, president of the Federation of German Industry (BDI), does not speak for all employers when he declares, in today's FT, Mr Kohl's attempted consensus-building as a waste of time. Other employer associations, whose members spend more time actually bargaining with unions than those of the BDI, still favour social partnership over opposition. Yet there is no denying the shift in Mr Henkel's direction in recent months.

Deeper structural forces

Large numbers of small and medium-sized companies have increasingly been looking for informal - not to say illegal - ways to tackle uncompetitive labour costs. If the economy continues to perform poorly, many others are likely to follow suit. True, tripartism might come back into favour among employers if, as the Bundesbank suggested yesterday in its annual report, the economy revives in the second half of the year. But, as is true of the economy more generally, there are deeper structural forces pushing employers to change their ways. The trade unions' traditional, constitutionally-guaranteed, role in corporate decisions was predi-

cated on managers serving interests other than those of shareholders. This, in turn, was possible as long as Germany's bank-dominated system of patient ownership survived. But, increasingly, corporate leaders and investors are urging a greater focus on "shareholder value".

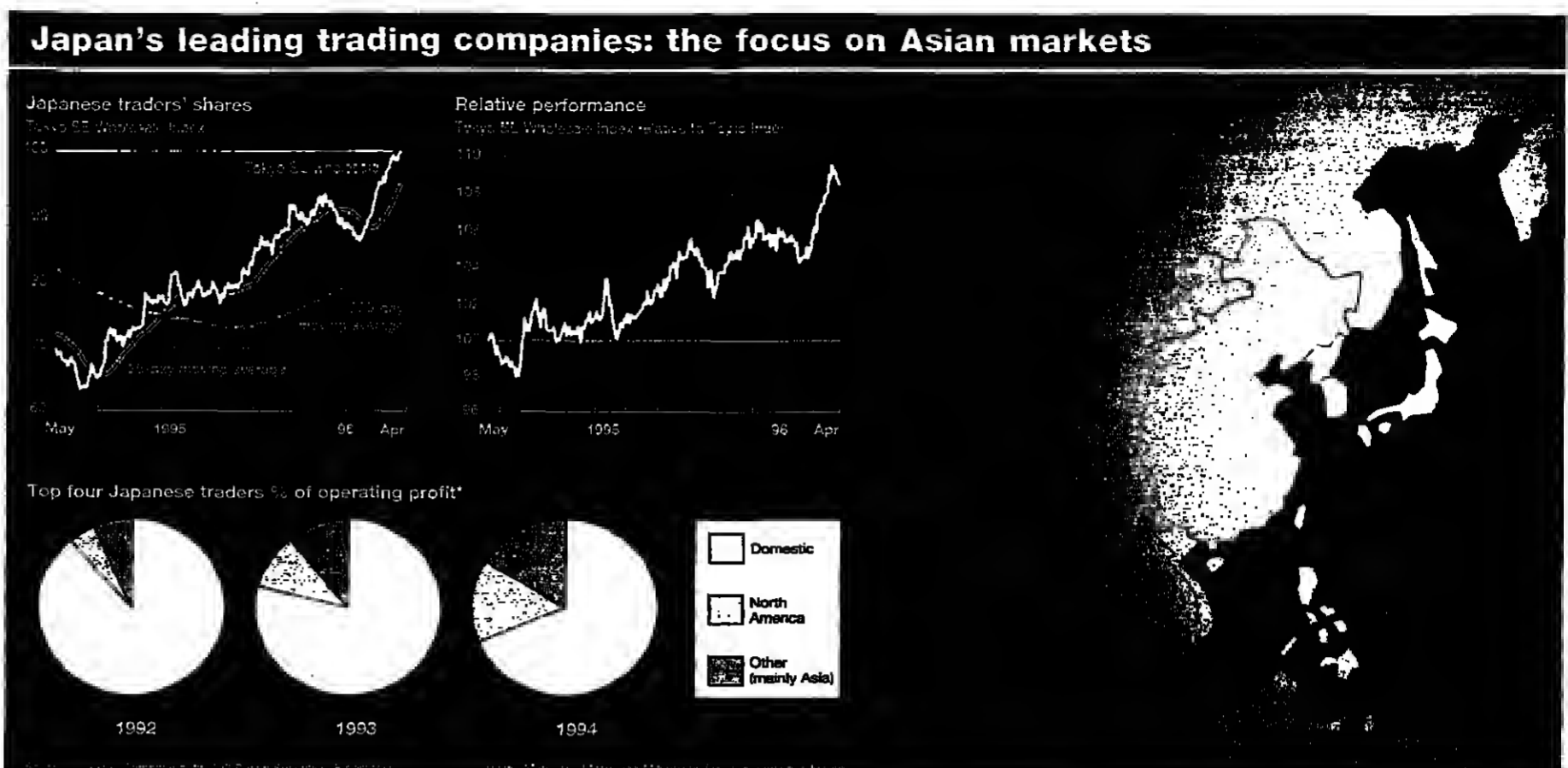
Germany's vaunted "stakeholder" system of corporate governance will not be overturned overnight. But a raft of small and large companies, including Daimler-Benz and Deutsche Bank are introducing executive share-option schemes. In theory at least, these would align managers' interests more closely to shareholders' and, by implication, divide them further from the interests of workers on the shopfloor.

Consensual tradition

The unions are unlikely to take any of this lying down. Yet, to judge by events of the past few days, they too may bypass the old tripartite structure in defending their position. In the wake of Tuesday's failed discussions at the Chancellery, several union leaders have been wondering aloud whether they should bother going to such meetings any more.

In their view, Mr Kohl's apparent decision to take the employers' side was a betrayal, not merely of the unions, but of the consensual tradition. Public sector unions are similarly outraged by the government's proposal for a wage freeze in the public sector pay negotiations, which begin today.

Mr Kohl cannot afford to give in to the unions on either front. His hopes of Germany qualifying for monetary union rest on his finding a way to plug a DM75bn (£38bn) hole in next year's budget, of which DM20bn is to come from the freeze on public sector pay. Against a backdrop of meagre private sector wage growth and 4m unemployed, the unions may decide they have little to gain from taking to the streets to defend a pay rise for the most secure members of the German workforce. That, at least, must be Mr Kohl's hope. For the cracks in the consensual system revealed this week will be increasingly difficult for even him to paper over.



A foot in east Asia's doors

Japanese trading companies are moving away from their traditional business and looking to their neighbours, says William Dawkins

Japan's general trading companies, only recently derided by western competitors as sleepy giants, are quietly but effectively staking their claims to the fast-growing emerging markets of Asia.

In common with other sectors of the Japanese economy, they have sought to reinvent themselves in recent years and are trying to move away from the low-margin, export-import business of the past.

Hardened by five years of falling sales and stagnant or declining profits, they are becoming nimbler and more entrepreneurial organisations, merchant Samurai taking on new activities from project finance to joint-venture manufacturing.

The Japanese traders' newfound aggressiveness is focused above all on their own neighbourhood. They are leading the exodus of Japanese industry into lower-cost locations in east Asia, and making an important contribution to the economic development of such countries as China, Burma and Vietnam. They bring with them the philosophy behind Japan's mixed economy, with its flexible balance between state guidance and market forces.

The profitability of the Japanese traders' Asian assault is as yet unproven, and they still earn most of their profits from their humdrum domestic operations. But their activities will shape the region's development.

"Formerly our business was to export and import from the Japanese market. But now that Japan is growing more slowly, we are looking to supply emerging markets in Asia. We have to diversify, otherwise we cannot survive," says Mr Akinori Seki, strategic manager for Marubeni. The group was once a specialised textiles trader, but is now expanding into Chinese oil exploration and Burmese steel-making.

"We have learned that it is no longer enough to be mere intermediaries. We must also be manufacturers, investors and developers of natural resources," says Mr Hiroshi

Matsushima, general manager of planning for Sumitomo Corporation.

The traders began in the 17th century as simple export-import businesses, earning thin margins on big volumes. They started to change strategy, in search of profits rather than sales growth, in the early 1980s and the process has been accelerated in recent years by the need to compensate for recession at home.

Mr Jason James, an equity strategist at James Capel Pacific, says the shares of the trading companies are valued largely for their new, diversified investments, not for their core trading business. "Some of them are beginning to look like conglomerates, or almost investment banks, rather than traders," he says. "Trading companies' share prices have on average risen 61 per cent since hitting a trough last June, more than the market as a whole over the same period."

The activities of Mitsui, one of the top two traders, are typical of the new flair that has begun to attract stock market investors. It has just started making steel bars in Vietnam and will next year open what will be the largest plastics plant in that country. Both projects are contained in a master plan for industrial policy, drawn up for the Vietnamese government four years ago by none other than Mitsui.

Itochu, the trading company with the largest exposure in China, late last year put together a takeover which enabled Japan's Asahi Breweries to become China's largest brewer. The deal originated at a party, when canny Itochu executives learned that their boss - the owner of an Indonesian conglomerate - wanted to sell his stake in a Chinese brewing company.

These deals are typical of the new kind of business being done by Japanese trading companies throughout Asia. During the decade to 1994 turnover from non-trading activities rose from a few per cent of total sales to one fifth.

The techniques the traders have

used to get their feet into doors across east Asia are as varied as the region's economies. But they share a common theme. In most cases, the traders have sought to squeeze more out of existing assets, such as the intelligence gathered by their vast sales networks, under-used finance departments, and links with banks and industrial companies which are fellow members of their individual keiretsu, the diversified Japanese corporate families. "We have 150 subsidiaries, each with tremendous local market expertise. The big question is how to utilise this now that Japanese production is no longer competitive," says Sumitomo's Mr Matsushima.

The most common strategy, followed by all Japan's traders, is to form joint manufacturing ventures with Asian public-sector companies or private investors, often overseas Chinese. The traders will supply materials to the new company, whether it be a Chinese toy manufacturer or Indonesian ethylene plant, and then distribute the finished goods.

All have been quickly building joint ventures across the region. Itochu, for example, has doubled its Asian joint ventures over the past five years to 350, of which 180 are in China. Mitsubishi Corporation opened 30 projects in China last year, bringing the total to 90. Most of those are geared to supplying Asian markets, rather than selling back to Japan as was the case in the past, says Mr Toyokazu Masuda, Mitsubishi's general manager for China.

Another method of making money has been the establishment of investment funds, in which the trading company will place its own cash alongside Asian corporate investors. They aim to make capital gains from buying and selling stakes in businesses, as well as exploit relationships with the target companies to help obtain conventional trading contracts.

Mitsubishi led the way, with the establishment of a merchant banking unit last April, partly inspired by the wish to repeat elsewhere the ¥17.6bn capital gain it netted from the sale of a stake in a US graphite electrodes business the previous year. The group launched an Asian venture-capital fund at the turn of the year, an example followed in the region by Mitsui, Marubeni and Sumitomo. The actual sums invested so far are very small. But the aim, says Mr Takeshi Kadota, deputy general manager of Mitsubishi's merchant banking department, is to add value by seeking alliances with members of the group, as well as go for capital gain.

Infrastructure development is another of the traders' new fields. Like other investors in emerging economies, Japan's traders have often found that poor distribution and erratic power have hampered opportunities. Rather than wait for host countries to bring infrastructure up to scratch, they have done it on a small scale themselves, by building industrial parks and distribution facilities, tenanted by Japanese industrial groups, often from the same keiretsu.

One of the first was a Mitsui industrial park north of Bangkok, the Thai capital, opened in the early 1980s. Its first big tenant was Toshiba, the electronics group which is part of the Mitsui keiretsu. Mitsui has since repeated the pattern in the Philippines and China, and has just received approval from the Burmese government for an industrial park near Rangoon. Similar parks, with distribution terminals and other facilities, tenanted by Japanese industrial groups, often from the same keiretsu.

The traders are also trying an old technique used by industrial and construction companies in the emerging economies of Africa and Latin America in the 1980s. The technique, known as build-operate-transfer, is increasingly popular in Asia. It involves building a plant or road, retaining the right to operate

it for a while, usually up to 30 years, and then transferring it to the host country at the end of the contract. This makes the project more affordable for cash-strapped governments and, in the case of power plants, compensates for shortages of local skills.

Marubeni is the first Japanese trader to have tried this to Asia, with a power plant in the Philippines five years ago and is working on a project to build a plant in Guangzhou, Nissho Inval and Itochu are also becoming more active in this business.

It is a risky field, since a government can easily be replaced during the life of a contract by one less friendly to foreign companies. Some countries such as Vietnam lack the legal framework to guarantee complex contracts. But, as Marubeni's Mr Seki points out, faint-hearted bidders will only lose out to US competition for this kind of contract, an area of US expertise.

All these techniques have required some traders to give local management an increasing amount of autonomy. This is a break with a previously centralised system in which regional managers were required to report in person to Tokyo, sometimes as often as once a month, to consult superiors. Nissho Inval opened a regional headquarters in Bangkok 18 months ago, Marubeni is considering following suit, and Sumitomo is in the process of transferring authority for Asian investments from Tokyo to Singapore and Taiwan. The others have preferred to keep management power in Tokyo for the time being.

Japanese traders' Asian diversifications remain a small proportion of their activities. The top five companies still derive more than two-thirds of their operating profits from their core Japanese exporting and importing business.

Even so, they have quickly emerged as a force to be reckoned with in Asia's emerging markets and as such will influence the economic development of the world's fastest-growing region.

OBSERVER

Big hitters bowled out

CS First Boston naturally wanted to put its best foot forward in bidding to advise the Hungarian government on the privatisation of Magyar Hitelbank, Hungary's largest commercial bank. So it rolled out its big hitters - David Mulford and Ian Molson, the chairman of its European operations and the co-head of investment banking.

Big mistake, Mulford, US Treasury under-secretary of international affairs in the Bush administration, is a US citizen. And Molson, though he has spent most of his adult life in London, is by nationality Canadian, a scion of that country's Molson brewing dynasty.

So what? Modern investment banks are increasingly international organisations. Try telling that to the officials running *Flare*, the EU aid programme financing the advisory work. They are about to disqualify CS First Boston from the Hitelbank tender because Mulford and Molson are not EU citizens.

Movie windmill

A 20-year quest for a dream team of actors fitted to the starring roles in a film adaptation of the Cervantes masterpiece, *Don Quixote*, seems over. John Cleese has reportedly agreed to take the

Kiss and make up

There's not been much love lost between Beijing and Jardine Matheson in recent times. But the black sheep of Hong Kong business appears to be returning to the fold. Having been voted off the general committee of the Hong Kong General Chamber of Commerce a few years ago - a move widely seen as the result of its support for governor Chris Patten's democratic reforms - a top executive of the British trading *Hong* has been voted back on board.

We're sick of beef

The mad cow crisis is taking its toll on UK citizens in more ways than one. Two officials from the UK government's Ministry of Agriculture returned to London at the end of Tuesday, much the worse for wear after a beef meeting in Brussels.

100 years ago

War scare in Argentina. Mr. Walter Morrison, M.P., chairman of the Argentine Railway Company, said at the annual meeting in London: "The country suffers from the political position, and especially from the scare which has been going on for more than a year - the war scare, and fear as to whether there will or will not be war between the Argentine Republic and the Republic of Chile concerning the boundary between the two republics in the Andes. I have every hope that war will be averted, but in the meantime a great deal of money is being spent by both republics in the purchase of warlike stores, and this is a very severe burden upon their finances."

50 years ago

Insurance control in France. The French Constituent Assembly has passed an Insurance Nationalisation Bill by 487 votes to 63. Among the principal provisions adopted by the Assembly were: (1) The Bill will enter into force on 1st July. (2) Compensation bonds received by present shareholders will bear 3 per cent gross interest, but in any case will equal dividends for 1944. (3) Eleven concerns including 34 companies to be nationalised.





Spanish parties close to deal to form government

By David White in Madrid

Spain's centre-right Popular party yesterday moved closer to a long-awaited agreement with Catalan nationalists which would clear the way for its leader Mr José María Aznar to form a new government next week.

However, a final deal had not yet been struck at the end of seven hours of negotiations in Barcelona.

The expected agreement would provide Mr Aznar with the extra backing he needs for an outright majority in congress following the general election on March 3. Mr Rodrigo Rato, chief PP negotiator and likely to be in charge of economic policy in the new government, voiced optimism that an agreement could be announced "in the next few days".

The date for an investiture debate, which Mr Aznar needs to win approval for his political programme, is due to be set tomorrow. Expectations of a political settlement, ushering in a PP government after more than 13 years of Socialist rule, helped push up

share prices yesterday. The Madrid general stock index closed at 358.13, just short of its all-time record.

The parties met after the Catalan coalition *Convergència i Unió* challenged the PP to come up with improved proposals on regional financing and other demands.

The PP, whose election victory left it 20 seats short of a majority in the 350-member congress, has secured support from four Canary Island deputies. The Catalan coalition, the largest regional grouping, has 16 seats. The PP has also been seeking an agreement with the five-seat *Basque Nationalist Party*.

Negotiations with the Catalans stalled this week after a weekend meeting between Mr Aznar and Mr Jordi Pujol, regional president of Catalonia and CIU leader.

However, it became clear yesterday that both sides - which share a free-market economic outlook and pro-European stance - wanted to avoid prolonging the political stalemate beyond the end of the month.

The CIU is expected to ratify the agreement this weekend.

Mr Pujol has sought concessions on regional issues to placate Catalan nationalist voters, many of whom are hostile to the PP. However, Catalan business circles have been anxious for an agreement enabling a PP government to press ahead with plans for further liberalisation of the economy and reduction of the public sector deficit.

Yesterday's negotiations centred on plans for implementing a new financing system for Spanish regions, transferring road-traffic control to Catalonia's regional police, and abolishing central government appointed provincial "civil governors".

The financing system would increase regional governments' share of income tax revenue from 15 to 30 per cent, giving them part of the responsibility for tax collection. The arrangement is expected to lead to a Ptas300bn (£2.4bn) increase in the funds available to the Catalan government over the next five years under the PP's latest compromise proposal.

Solution nearer for obstacle to BT merger with C&W

By Alan Carne in London

One of the main obstacles to a merger between British Telecommunications and Cable & Wireless, the UK's two biggest telecoms companies, seemed to be moving closer to resolution last night.

RWE, the German industrial group with which BT proposed an alliance earlier this year, has revived contacts with other international telecoms operators because it fears it may have no future in the merged group, sources say.

The alliance between BT and RWE has yet to be finalised. If the German company was to pull out, it could simplify matters for BT and C&W in Germany, where both companies have local alliances.

BT is involved in a joint venture with Viag, a Munich-based industrial group, while C&W has a similar relationship with the Düsseldorf-based *Veba*. *Veba* is C&W's largest shareholder with a 10 per cent stake, which makes the situation particularly difficult to unravel.

RWE, which has ambitions to become one of Germany's leading telecoms operators, has restarted talks with operators including Bell Atlantic and the Danish group *Tele Danmark*.

German telecoms analysts say that *Veba* is a more suitable German partner for a merged BT/C&W. They also point out that an existing joint venture between BT and Viag, launched in January last year, has got off to a slower start than expected, generating sales of just DM115m (£75.6m) last year.

BT and C&W yesterday denied knowledge of any change in RWE's attitude to the BT deal. BT said its relations with RWE and with Viag, which it hopes to tie into a three-way alliance, were strong. It said it was happy with the commercial performance of the venture with Viag.

Veba, one of Germany's largest groups, is known to be determined not to be left out, whatever grouping might result from a merger between BT and C&W. It has discounted suggestions that it could be interested in buying Mercury Communications, C&W's UK telecoms operation.

Speculation about future telecoms alliances in Germany is complicated by the fact that final bids have to be submitted this week for a 49 per cent stake in DBKcom, the telecoms subsidiary of Deutsche Bahn, the federal railway network.

Viag is one of three German companies which has made it to the final round and, were it to win the DBKcom stake, it would then have control over Germany's second biggest long-distance telecoms network making the possibility of a stand-alone alliance with RWE attractive. RWE could not be reached last night for comment.

Splitting Siemens up

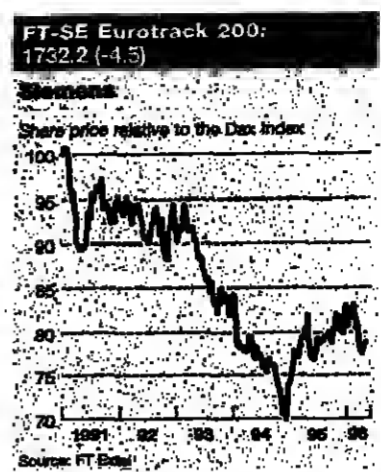
Siemens has not suffered the huge losses that have forced Daimler-Benz to renege its strategy. But that does not excuse Germany's other industrial titan from a radical rethink. Despite yesterday's 15 per cent rise in first-half profits, Siemens' return on capital is still in negative figures. Part of the solution should be a demerger. The group would divide neatly into two: a high-tech side comprising telecoms, semiconductors, computers and medical equipment; and a low-tech group embracing power plants, rail systems, capital goods and lighting. Splitting the two would increase focus and add pressure to perform by increasing visibility.

Quite apart from such industrial advantages, a demerger could unlock huge shareholder value. With a market capitalisation of DM47bn (\$30.9bn), Siemens is valued at half expected 1996 sales. Motorola, which also makes semiconductors and telecoms equipment is valued at 1.3 times turnover. Siemens does not have Motorola's strength in sexy mobile communications; but if it can improve returns over the next few years, a valuation of one times sales should be achievable. Highly-valued paper would also give Siemens a valuable currency with which to acquire other high-tech businesses. Meanwhile, if the low-tech business - which would be rather like ABB - was rated at a quarter of sales, the combined effect would be to lift its share price by a quarter.

Such a radical scheme is not even on Siemens' agenda. But if it followed Daimler's recent example and awarded its executives share options, they might start to think the unthinkable.

THE LEX COLUMN

Splitting Siemens up



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UK power

Let nobody say utilities make boring investments. But the latest shock to the electricity sector does at least flow from a sensible decision: the British government's ruling against the generators' bids for regional electricity companies (reps). As ever, though, its view remains incomplete. We now know the government's position on vertical integration resulting from generators buying reccs; but we do not know how far reccs will be allowed to achieve the same effect by expanding their generation capacity. If Eastern's purchases of generating plant from National Power and PowerGen are waved through, its market share in generation will be substantial and its influence on electricity prices significant. To allow Eastern to achieve what the generators cannot look like a nonsense. The regulator can and should prevent it. The main beneficiaries of the gov-

ernment's decision are, of course, the remaining independent reccs: their supply businesses are not going to be squeezed by integrated competitors. Yet their share prices all fell sharply yesterday. To an extent, this looks the right result for the wrong reason: some deflation of the reccs prices was overdue. And although the decision has no bearing on the prospects for further foreign bids, the more tempting targets now look to be Midlands or Southern, with their stronger balance sheets, than the other independent reccs.

As for the generators, the decision makes them more vulnerable to the downward pressure their margins will face in 1996. But their balance sheets still look phenomenally strong, and some handsome payouts to shareholders are now in order. Nor is it self-evident that Southern Company will not persist with its bid for National Power; if it really wants to, it could dispose of South Western Electricity to do so. And National Power cannot now argue against a Southern Company takeover on the grounds that it means losing the opportunity to merge with Southern Electric. Arguably, the government has actually deprived National Power of the best argument for its independence.

Platinum

The European Commission's decision to block Gencor and Lonrho's plan to merge their platinum interests may be well-intentioned, but it is unlikely to achieve much. Competition worries are understandable between them, three groups - Gencor, Lonrho and Anglo American Corporation - dominate platinum production outside Russia. And they are all now connected. Anglo, whose platinum inter-

ests are the world's biggest, has an option to take its stake in Lonrho to 26 per cent. And Gencor has a 27 per cent holding in Lonrho's platinum operations. The result is to connect the commercial interests of the three groups in a way which should be good news for shareholders but could be bad news for consumers. There is no sign of collusion so far on the contrary. Anglo and Gencor are old rivals. And Russia's copious stockpile is a serious - if apparently fast-shrinking - obstacle to anyone trying to drive up the platinum price. So there may be nothing to worry about in which case EC intervention is unnecessary. But if there is, blocking the merger is unlikely to be enough. The Commission's action looks like an empty gesture.

Telegraph/Hollinger

Mr Conrad Black's bid for the 36 per cent of the Telegraph he does not already own looks generous enough on first glance. Few newspaper groups trade on anything like the multiple of 32 times last year's earnings that the Canadian tycoon is offering. But scratch a little and the offer is not that great. Profits will rebound this year in response to last year's 10p increase in the Daily Telegraph's cover price; with the UK newspaper price war winding down, at least one more 5p increase is likely. Moreover, minority shareholders have Mr Black's offer of something of a barrel. Unless he takes full control of the Telegraph, he will be hard-pressed to finance his ambitious expansion plans - in particular his scheme to acquire Fairfax, the Australian newspaper group. Issuing Telegraph stock to pay for more empire-building is clearly not on: the City has raw memories of Mr Black's sale of a large slug of the shares two years ago just before cutting the Daily Telegraph's cover price. His current plan is to raise money through Hollinger International, his US vehicle. But until Hollinger controls the Telegraph's cash flow, investors are unlikely to find its shares that appealing. The Telegraph's independent directors no doubt feel vindicated in rejecting Mr Black's indicative offer of 450p last year, since it has now been upped to 570p. But that is still less than the 587p Mr Black received in his controversial share sale. Given Mr Black's weak negotiating position, the independent directors should have been able to squeeze at least 587p. Additional Lex comment on Bank of Scotland, Page 26

UK block on power bids

Continued from Page 1

the bids but said the issue of vertical integration had not been resolved and repeated its call for the whole electricity industry to be referred to the competition authorities.

City analysts said the decision to block the bids appeared to be at odds with the authorities' apparent blessing for Hanson's acquisition of plant from both National Power and PowerGen, which will create a vertically integrated electricity group not much smaller than PowerGen.

Mrs Margaret Beckett, shadow trade secretary, said: "The rejection of the MMC advice... supports Labour's calls for reform of the competition authorities."

Share prices fell across the electricity sector. Southern Electric lost 79p to 824p, Midlands 40p to 371p, National Power 32p to 564p and PowerGen 36p to 570p.

Platinum

Continued from Page 1

Indicated that it still intends to go ahead with its previously announced plans to demerge its mining interests.

Mr Michael McMahon, Impala Platinum's chairman, accused the commission of "ignoring compelling evidence that this merger was based on the soundest pro-competitive rationale".

Anglo American was said to have been angered by the Commission's reference to its stake in Lonrho, and repeated its statement from last month that it was "not its intention" to make a general offer for the rest of Lonrho's shares.

S Korea may ease labour laws to gain OECD admission

By John Burton in Seoul

Mr Kim Young-sam, the South Korean president, yesterday indicated that Seoul would revise its restrictive labour laws to gain admission to the Organisation for Economic Co-operation and Development.

The tough curbs on trade unions have been widely criticised, and some OECD members have threatened to block Korea's scheduled admission to the club of industrial nations.

"The OECD has no specific standards with respect to labour rights. However, it is relevant for members of the OECD to note that there are certain basic values shared by all member nations with respect to human rights. And labour rights are a part of human rights," said Mr Christian Schricke, head of the OECD's legal directorate, after meeting officials in Seoul this week.

There has been strong resistance within the government to widespread labour reforms. The biggest worry among officials is that they might lead to renewed labour unrest, which has declined sharply in the 1990s due to better working conditions and a crackdown on strike activity. There were fewer than 100 strikes last year, compared with more than 3,000 in 1987, when the government eased its ban on the trade union movement.

In response to the OECD pressure, Mr Kim yesterday announced the establishment of a presidential advisory committee

to examine labour law reforms. "The excessively restrictive laws and institutions of the past must be... revised in a way compatible with international standards and practices," he said.

However, it is uncertain whether the measure will satisfy OECD members since the committee's recommendations will not be released until late 1997, when Korea is scheduled to have already joined the organisation.

Under the reforms, legal recognition would probably be granted to a new labour organisation, the Korea Confederation of Trade Unions, which is considered more militant than the government-sanctioned Federation of Korean Trade Unions.

At issue are several crucial provisions of labour law, including: ● A prohibition on multiple unions in a company, which denies workers the right to join the union of their choice.

● A ban on the intervention of third parties in labour disputes. This law "has been used to justify criminal prosecution and imprisonment of union leaders for their speeches and statements supporting collective action by other unions", according to Washington-based Human Rights Watch/Asia.

● A prohibition on unions donating to political parties or participating in electoral campaigns. Although trade unions represent only about 10 per cent of Korean workers, their membership is concentrated in the country's biggest companies.

FT WEATHER GUIDE. Europe today. It will be sunny over Greece, Turkey and the western Black Sea. A front moving across central and eastern Europe will bring showers, especially over Italy and the Balkan states. Shows and isolated thunderstorms are also expected over eastern Poland and western Russia. France, the Benelux and western Germany will have sunny periods, possibly mixed with showers. Spain will have sun, especially in the west. Showers are expected in eastern Spain and over the Balearic Islands, Corsica and Sardinia. Low pressure systems will cross the UK and southern Scandinavia towards Russia, bringing rain. Five-day forecast. Conditions over the British Isles will gradually improve. It will become drier and sunnier. Western sections of the continent will also become sunnier. On Friday the Benelux will have rain, especially in the north. Southern Europe will have rain. TODAY'S TEMPERATURES. Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands. Table with columns for city, temperature, and weather conditions.

International Pepsi-Cola Bottler Investments Limited. (Incorporated in Guernsey, Channel Islands). US \$156,000,000 representing 1,560,000 Shares. A newly formed Pepsi-Cola Bottling Company investing throughout the African Continent. Lazard Capital Markets, Indosuez Capital, Standard Chartered Bank. April 1996.

سكوا من الأصل

سكزا من الاصل

Shepherd

VEHICLE FLEET MANAGEMENT

The showy end of the motor industry

The high proportion of heavily discounted company car sales is upsetting private buyers unable to exploit such discounts, John Griffiths observes

This week Silverstone, the self-proclaimed home of British motor racing, is echoing not to the rasp of race cars under test - but the tyre squeal of salesmen's saloons and executives' "perk" cars being put through demonstration paces.

What relevance this has to business motoring on Britain's motorway networks is hard to fathom. But fleet managers in their hundreds have insisted that they find it "informative". And if that event is what they want as part of what has become an annual Fleet Show, the car makers and associated industries, which have grown up to cater to fleet needs, are determined that they shall have it.

registered to businesses rose from 50.8 per cent to 53 per cent and the trend has accelerated sharply in the first quarter of this year, to nearly 57 per cent.

If the number of cars bought for business use but registered to individuals is added - as in the case of partnerships, for example - then business purchases currently account for 70 per cent, and possibly more, of all new car sales.

It is this small wonder that car makers, contract hire and leasing companies and other vehicle services providers are courting the business sector so assiduously.

This picture is unlikely to change, for suspicion is hardening into the certainty that more than a simple lack of consumer confidence - based, for example on uncertainties about jobs or negative equity in housing - lies behind private motorists' desertion of the new-car marketplace.

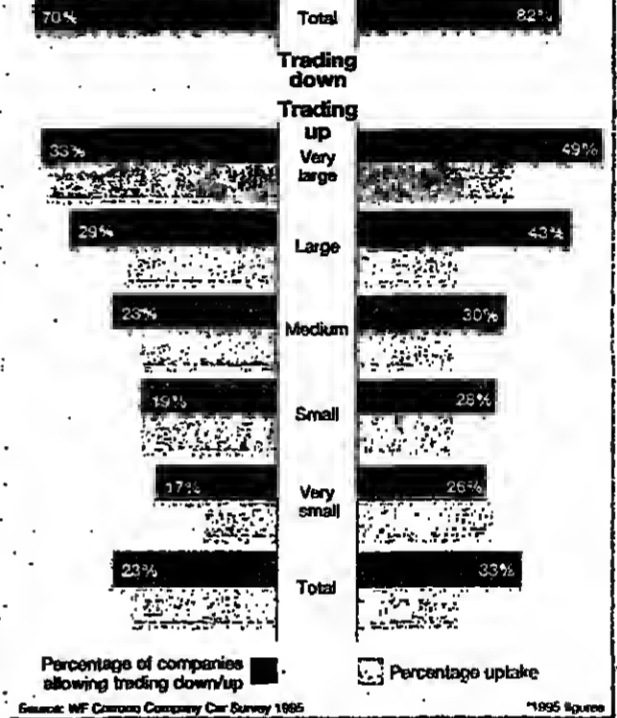
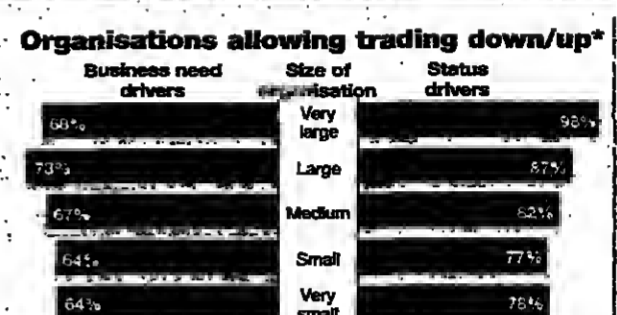
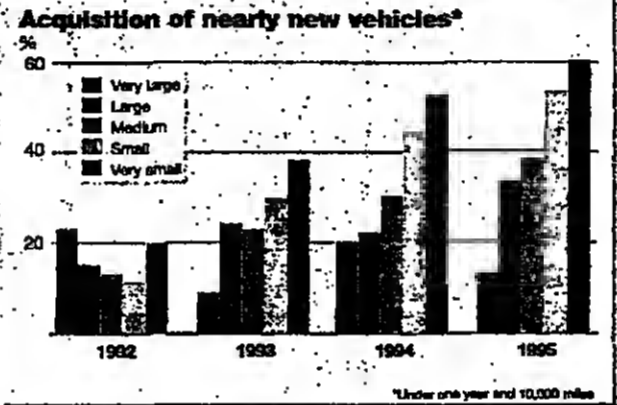
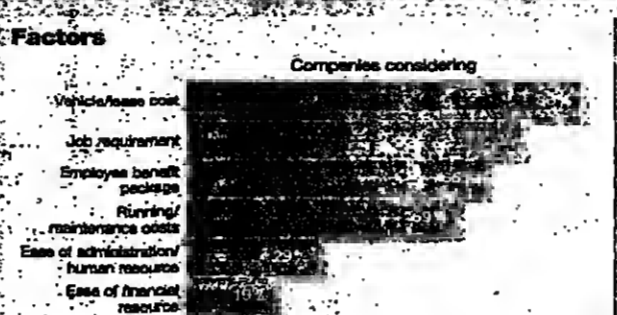
duction lines moving.

The bottom line of all this is that while car makers have begun to back away from some of the deals guaranteed to upset private buyers when publicised - such as the tens of thousands of cars sold to short-term rental fleets at discounts of 25-40 per cent - their dependence on the business sector means that for fleet managers, the UK is very much a buyers' market and likely to remain so.

This is particularly the case because of the increasing number of car makers and importers intensifying their efforts to break into, or increase their share of, the UK's business-car market.

Notable among them are the Volkswagen group, now pricing much more competitively since taking direct control of UK distribution from the Lorch group; Fiat, whose UK sales have jumped by nearly 80 per cent over the past year as major investments in new model programmes have begun to pay off; and the South Korean companies Daewoo and Hyundai, which are both now aggressively seeking fleet business.

Aspects of company car policy



Some 76 per cent of companies now allow Japanese-badged cars on their fleets if they have been produced in the UK, and two-thirds allow cars produced in Japan itself. The trouble is, at least from the car makers' point of view, that some companies - particularly smaller ones also lacking the muscle to win big discounts - are proving not at all averse to forsaking the new car market themselves in favour of the "nearby new".

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are not necessarily provoking hostility from the company employees who drive them. Indeed, with the increasingly prevalent practice of allowing a company driver to choose almost any car within a fixed monthly contract hire rental allowance, some drivers are cheerfully opting for used cars which would be well outside their price range if new. This is despite the fact that, under revisions to company car taxation legislation introduced two years ago, such drivers have to pay a higher personal tax bill for their indulgence.



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II VEHICLE FLEET MANAGEMENT

Company policy: by Kenneth Gooding

Readied for the diesel's surge

Contract hire is being considered following changes to the way cars are treated for VAT

UK car dealers readied themselves for a big surge in sales of diesel-engined cars following the big 1994 shake up in the way company cars are assessed for taxation. The old tax system discriminated against cars with bigger engines and diesel cars typically require larger capacity engines if they are to match the performance of similar petrol-engined vehicles.

More companies began to insist that employees changed to diesel when they replaced their company cars. There seemed to be good business reasons: diesel cars were attracting higher prices in the used car market; fuel costs were lower for drivers doing high annual mileage; and diesels were also perceived to be more environmentally friendly.

Now this trend has gone into reverse. Mr David Atkins of Monks Partnership, the remuneration adviser which tracks UK company car policies, says that recently four big companies surveyed by Monks had changed their policies and no longer were insisting that their car fleets gradually became all diesel.

Experience showed them, they said, that diesels were no cheaper to run than petrol cars when price, fuel costs, maintenance and repairs were taken into account.

Perhaps, more importantly, diesel cars are losing their "green" credentials. Environmentalists are most worried about the particles emitted in the black smoke from exhaust pipes of badly-maintained diesel cars. These "particulates" are ten times greater in diesel than petrol exhaust fumes. The International Agency for Research on Cancer suggests they are the most dangerous of all car pollutants.

Other organisations are

experiencing this trend. Mr Shaun Price, sales director of Fleet Management Services, says his company expected a surge in diesel car sales after the tax changes but it never materialised. He suggests there is another important reason. "Many people still see the company car as a status symbol and diesel cars don't give the right message as far as they are concerned," he says. "Those companies that imposed a diesel policy were giving their employees no choice."

There is another trend in company car policies that FMS has noted. This also relies on the corporation being able to give employees little choice about what they will drive at the company's expense. Some companies are acquiring

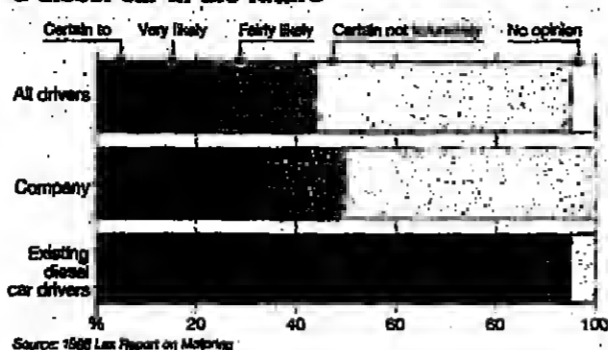
In one view, purchasing 'nearly new' cars really does lower the company costs of contract hire

"nearly new" cars instead of brand new ones. There has been so much demand for "nearly new" vehicles that FMS has set up a separate division to handle it.

Like the many private car buyers who have chosen the "nearly new" route to cost savings, the companies are letting someone else suffer the big depreciation that hits nearly every new car. Mr Price says that acquiring "nearly new" really does lower the cost of contract hire, for example, because depreciation is such a big element in the total cost.

Nevertheless, "this is not for user-choosers [where companies allow employees to select the car of their choice within certain limits]. It must be company imposed. And it is not good for morale to put some-

Likelihood of considering buying a diesel car in the future



Source: 1995 Lees Report on Motoring

one who has been looking forward to having a new car into one that is six months old," Mr Price insists.

Changes to the way cars are treated for VAT (value added tax) caused another new trend in company car policies. Companies providing cars on contract hire were able for the first time to reclaim some VAT while companies in other businesses are not. This led to many companies considering whether they should switch from the outright purchase of cars for their fleets to contract hire. Mr Price says that so far not many have converted, but the signs are that many will.

Mr Atkins says that many more companies than usual are reviewing their car fleet policies at present. Some smaller organisations are asking themselves whether "nearly new" cars would save money. Bigger

companies are asking themselves whether they need all the cars they have on the fleet or how does their car allocation policy compare with others.

There is a tendency for the cost of providing cars, as well as the quality of cars provided, to "creep" upward and companies today are concentrating heavily on reducing costs. This upward "creep" usually comes about when a company is recruiting and newcomers ask for and are given slightly better cars than they would qualify for if they had been promoted from within the organisation.

Mr Atkins says companies also have to bend their own rules to recruit specialists that are in short supply, for example information technology specialists. "Are you going to lose the chance of recruiting

the whiz kid you want because he or she is insisting on having a car as part of the package but the company rules say the job doesn't rate one?"

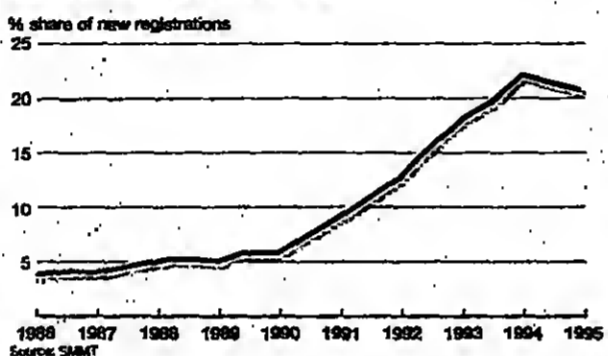
Following the shake-up in the way personal tax has to be paid on the benefit of having a company car, many more companies are offering cash or salary increases as an alternative to the car. Mr Atkins says most big companies surveyed by Monks have their cash alternative policies in place but most smaller organisations are still struggling to find the right approach. Some large companies have had four or five years' experience with cash-for-cars and are re-examining their policies.

The take-up of cash depends partly on the generosity of the offer and partly on the location and type of company making the offer. "The companies are trying to achieve a position where they are financially no worse off - a "cash neutral" position - the take-up of cash is between 10 and 20 per cent of eligible employees, according to Monks. Where more generous terms are offered, the take-up jumps to between 20 and 30 per cent and some companies are even claiming more than 60 per cent.

However, the further north a company is based in the UK, the less likely is the cash offer to be taken up. "The company car is still a potent status symbol in the north," says Mr Atkins at FMS. "Also, people are more likely to need a car to get to work in the north. It makes more sense for a person working in the City of London whose car sits on a station forecourt all day, and whose partner also has a car, to give up the company car and take cash instead."

Mr Atkins says that the research shows that very senior managers are more likely to take cash than those further down the corporate ladder. "It is almost as if they are saying: 'I'm so good I don't need to have a shiny new car any more to prove it.'"

Sales of diesel cars in the UK



Source: SMMT

Diesels: by John Griffiths

Soaring sales falter

The next, more specialised generation could give the sector a new lease of life

Until last year diesel cars were the growth sector of the UK new car market. From a few thousand a year a decade ago, sales roared away in the early 1990s to reach 481,000, representing 23 per cent of the total market, by 1994.

There appeared good reasons for the growth:

- diesel cars are a lot more economical of fuel than their petrol-powered counterparts, typically travelling at least 20 per cent further per gallon on an average journey and by a third or more around town, where diesels are at their most efficient;
- fuel savings of more than £500 a year are easily achievable with a 2-litre company car covering 20,000 miles a year;
- resale values have been higher than petrol equivalents, partly because of scarcity, value and partly because of the diesel's greater longevity if properly maintained;
- with turbocharging and modern fuel injection technology, the modern diesel car also gives little away in terms of outright performance compared with its petrol equivalent;

and the one notable disadvantage of most diesel cars - a higher initial purchase price - has been fading as manufacturing economies of scale for diesel engines build up. Given all these attributes, some market analysts have suggested that diesels could go on to capture as much as one-third of the total new car market, particularly as the beneficial effects of the very latest diesel technologies - such as multi-valve and direct injection - make themselves felt.

Last year, however, diesel car sales fell back by 6 per cent in a total new car market up marginally on 1994. And most in the industry are at a loss to explain why. Part of the explanation may lie in recently-raised uncertainties about the environmental "friendliness" or otherwise of diesels and the possible knock-on effects for future residual values, according to Mr Mike Balfry, commercial director in charge of major corporate accounts at Dial Barclays Bank's vehicle management services subsidiary. While diesels are accepted as emitting less carbon dioxide - the culprit in global warming - and some other pollutants than petrol, the minute sooty particles generated by diesels, known as PM10 particulates, have been identified in some reports as a possible carcinogen.

The differing views over the future of diesels indicate that the market is perplexed about its future," Mr Balfry suggests. The increased supply of used diesels also means an inevitable weakening of diesel's residual values and an accompanying increase in monthly leasing and contract hire rentals. Hence, the next generation of diesels could give the sector a new lease of life.

Despite last year's reverse, the UK remains Europe's third biggest market for diesels - with more than 406,000 sold last year - and market monitoring group Automotive Industry Data (AID) also maintains that growth will resume as new generations of diesels reach the market. Overall, AID projects that diesels will capture 30 per cent of the total European new car market by

the year 2004, involving a rise in unit sales to 4.3m from 2.65m last year.

Cars such as Volkswagens and Audis fitted with the German group's new 1.9 TDI direct injection diesels, and the latest Rover 600 models fitted with a smaller K series engine, serve to support AID's contention. Road test reports on the vehicles regularly show average fuel consumption of more than 50 miles per gallon - an ever more persuasive factor as the absolute price of petrol and diesel continues to climb.

Perhaps just as significant, the volume of diesel sales already reached in Europe is such that vehicle makers can begin to justify building dedicated diesel engine plants further to improve scale economies - with the potential to eliminate the diesel price premium entirely.

Not are diesels necessarily to be shunned by the executive and luxury car sectors. BMW has shown the way with a six-cylinder turbodiesel unit which performs as smoothly and as quietly as a petrol engine and which Rover is now using in its Range Rover four-wheel-drive models.

However, one of the most innovative approaches to the sector is being made by Perkins, the specialist diesel engine maker which is part of Varity Corporation of the US. It is developing its own large-capacity diesel specifically for luxury cars. The low sales volume of such cars make it uneconomic for an individual carmaker to develop such a diesel. However Perkins maintains that it can viably develop and produce such a unit at volumes as low as 40,000 a year. By "customising" such engines cosmetically - with carmakers' name on the camshaft covers, for example - Perkins hopes to supply four or more carmakers, which could then sell luxury diesels profitably even if each carmaker was selling less than 10,000 units a year.

The UK remains Europe's third biggest market for diesels

PROFILE CPM International

Blue chip support

CPM International, based in Thame, near Oxford, conducts both field and telemarketing campaigns for a wide range of blue chip clients. The company car fleet currently numbers 287 vehicles for CPM's full-time staff, with a further 2,500-3,000 field force using their own vehicles and reclaiming car expenses from the company.

As its business has grown, so has the size of the fleet. In the late 1980s, CPM's International ran between 70 and 80 cars, all of which were purchased outright and managed internally.

However, the decision was then taken to switch to a contract hire company and a sales and leaseback deal was negotiated. "As the fleet got bigger, so there was an enormous amount of money tied up in vehicles," says Ms Shirley Burt, the company's fleet co-ordinator. "In addition, we needed the expertise and advice that was available from a professional specialist."

Over the years, a number of different contract hire companies have been employed, but around 18 months ago, a single company - Masterdrive - was chosen to operate all the vehicles in the fleet.

"We chose them because we had worked with them for seven years and had always been impressed by the level of support and service that they offered. Masterdrive came up with a sole supplier package and we felt it was the right thing to do to switch to a

single company," says Ms Burt.

"Financial considerations are always important, but perhaps the most critical factor in coming to this decision was the level of service they provide, because with myself and a small amount of in-house help, we need the support in running a fleet of this size."

All the cars are on full contract hire with maintenance, with Masterdrive also taking responsibility for Accident Management Insurance is arranged separately by CPM International's American parent company.

Directors and Client Service Directors have a free choice of cars within a pre-set monthly spend limit. Other grades - such as client service managers and regional field managers - each have a choice from a list of three or four vehicles.

For example, the client service manager would have a choice of the Ford Mondeo 1.8 GLX, Citroen Xantia 2.0LX and the Renault Laguna 1.8LX; the company is now looking to replace the Vauxhall Cavalier which was on the list and has been testing various models before making a final decision. The field policy is not quite as rigid but an example of the vehicles currently in use for Regional Field Managers would be Citroen Xantia 1.6LX, Ford Mondeo 1.6LX and Vauxhall Cavalier 1.6LX.

Field team managers and supervisors would in the main

drive 1.4-litre engine cars and historically these have been Escorts and Astras. However, a demonstrator programme is under way in which team managers on one large account whose present batch of 60 vehicles come up for renewal shortly are testing three models from three different manufacturers.

"As they spend so much time in the vehicles, we thought it important to involve the drivers in the decision-making process and wanted to give them the opportunity to drive the cars and give us their input on which models they prefer on to the choice list."

The eventual choice of cars on the lists is also influenced by Masterdrive, who provide for CPM International the information they need to draw up lists of cars at a given monthly rental cost - which takes into account not only acquisition price, but also overall running costs and anticipated residual values. So the choice comes down to a combination of the models that offer the best value for money at the time, combined with the models that the staff prefer driving - though with keeping within a given budget remaining the overriding factor.

Martin Derrick

The showy end of the industry

Continued from Page 1

compared with the risks and inconveniences of running cars of their own. In theory, when the government introduced the latest company car taxation scheme, it finally achieved tax "neutrality" for the sector - company car drivers are no better off, in overall tax terms, than private car buyers. But the financial calculations also do not take account of the absence of "hassle factor" in running a company car - no showroom haggling, no pleading for a better trade-in price; no queuing at service reception counters (most company cars are collected and returned to being off-site at service or repair times) and no hefty unexpected repair bills. Monks guide editor Mr David Atkins

says it is this factor which, largely explains the very low take-up of cash alternatives to the company car increasingly offered by companies since 1992, when VAT and other taxation obstacles inhibiting such schemes were removed. He estimates that some 67 per cent of companies now offer a cash alternative.

However the take-up rate, on the basis of Monks' survey findings, averages only around 4 per cent. Calculating just what the cash allowance should be represents just one of an ever-broadening range of problems and complexities confronting fleet managers, company secretaries or whichever other directors might be burdened with the task of running the fleet and devising company car policy. For most, it is an unenviable task. Company cars

tend to be a highly emotive issue among all levels of employees, and no other non-core element of a company's business is so prone to rousing disruptive petty jealousies. It is thus not surprising that companies specialising in providing fleet management services or vehicles on contract hire or other forms of leasing, regularly produce surveys to show that in-house fleet managers are doing a poor job; or that companies could save fortunes through buying in outside expertise; or that contract hire with full maintenance is now so advantageous, following VAT reforms announced last year, and that every company should go down that route. Yet despite all the specialist industry's handiwork, more than half of company cars are still bought outright.

سكنا من الأصل

صكنا من الراجل

The great transport debate: by Charles Batchelor

The car faces heavy attacks

Labour's plans, to be unveiled within months, promise a more long-term approach

The car in general, and the company car in particular, is under attack from the environmental lobby as never before. Drivers are being urged to leave their cars at home and make greater use of public transport to spare the environment, save energy and reduce congestion.

But despite a growing consensus around the need to reduce car use, government policy is still in state of disarray. The launch 18 months ago by Mr Brian Mawhinney, of a public debate of transport issues, has yet to provide any firm answers.

Sir George Young, the current transport secretary, has promised a green paper later this year but coming shortly before a general election - May 1997 is the absolute deadline - there are fears it will fudge rather than address the issues.

There are, at present, no clear signs of a coherent transport strategy emerging to help the company fleet manager plan over the longer term. Policy still appears to be driven by Treasury pressure on spending totals and by environmental concerns rather than by a clear view of transport's role in and contribution to the economy.

The first casualty of this muddled approach has been the roads spending programme. Almost as an afterthought to its budget announcement last November, the government revealed plans to lop nearly £4bn off the £12bn roads programme unveiled just 18 months earlier and to scrap 77 road building schemes.

The government places a growing emphasis on the private finance initiative as a means of funding road construction. But its £1bn "design, build, finance and operate" programme, which awards road building and maintenance contracts to the private sector for 30-year concessions has been slow to take off.

In addition, the roads built under the scheme are financed by "shadow tolls", direct government payments to the concessionaires. This method avoids a large initial payment for a roads contract but does commit budgets over the very long term.

Plans to introduce "real" tolls, charged directly to the motorist, have suffered setbacks and the programme now

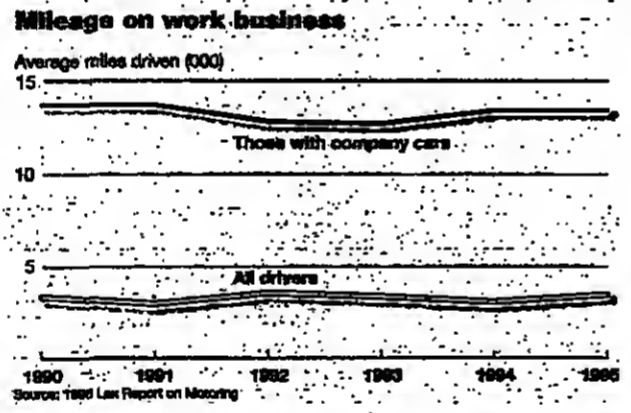
Net support for transport policies within industry*		
	Captains of industry	Transport professionals
Introduce more "park and ride" schemes in towns and cities	87	80
Invest a lot more in buses and trains	84	71
Improve road access to docks for heavy goods vehicles	73	65
Introduce toll charges on certain main trunk routes and motorways	51	-27
Invest more in motorways and main trunk roads	49	4
Build new toll roads to relieve congestion on trunk roads and motorways	47	4
Introduce more bus lanes on roads in towns and cities	45	53
Widen Britain's existing motorways and main trunk roads	18	8
Increase subsidies for public transport paid for out of taxes	-18	6
Charge car drivers 23 a day to drive in cities	-18	-48
Have lanes reserved for cars with two or more occupants	-28	-57
Reserve one lane on motorways as a toll lane for heavy commercial vehicles	-33	-28
Charge higher tax on large cars	-34	-25
Ban cars from city centres	-46	-22
Much higher taxes on petrol to discourage consumption	-49	-64
Encourage switch of freight from rail to roads	-77	-67

*Of those who expressed an opinion: percentages should therefore be percentages of those who expressed an opinion. Source: 1995 Lex Report on Motoring

appears unlikely to be implemented before 2004, if then. This represents a considerable reversal for those who thought charging motorists at the point of use would lead to a more rational use of the roads network and lead to a fairer comparison of the cost of rail travel as against the car.

The plan for the electronic tolling of Britain's 1,700 motorway network was launched on a wave of optimism by Mr John McGregory, then transport secretary, in 1993 with aim of having a system in place by 1998. But a growing awareness of the political and technological difficulties involved has prompted a rethink.

Road user groups are already concerned that the motorist pays for more, in the form of fuel duty, road fund licence and other taxes, than is spent on maintaining and developing the roads network. A further charge in the form of road tolls would be extremely unpopular with voters.



Source: 1995 Lex Report on Motoring

At the same time electronic tolling systems do not yet appear robust enough to operate efficiently on Britain's heavily trafficked motorway network. Eight consortia were selected last year to take part in trials but four groups have already withdrawn.

Their reasons include the fact that motorists diverting from the motorways to other main roads to avoid paying tolls. Although the government says it is pressing ahead with its plans for tolls, it is also looking at other methods of financing the roads network. One idea is for the country's entire main road network to be transferred to the ownership of one or more new corporations which might be financed by tolls but which could also levy road charges in the shape of a tax "disc" or higher fuel duty.

Labour's own detailed transport plans are due to be unveiled within the next few months but Ms Clare Short, its transport spokeswoman, has promised a more long-term approach and the greater use of land use planning to reduce urban sprawl and the need to travel. Labour is also likely to be more responsive to environmental arguments.

Persuading the business driver to leave his car at home for some journeys depends on their being an attractive public transport alternative. It is the government's hope that privatisation will produce a rail system which is more responsive to customer needs, though the rail sale is still at too early a stage to judge whether or not this will be the case.

Five of the 26 train operating franchises have been allocated to private sector buyers and all are promising improvements in service. Those operating long-distance routes, in particular, have promised to look at improving facilities for the business traveller both on

VAT: by John Griffiths

Not in the script

New legislation seems to have sown confusion and not produced hoped-for savings

For the contract hire industry, recent events have not gone according to script. When Chancellor Kenneth Clarke announced last year that companies would be able to reclaim the 17.5 per cent VAT on cars bought solely for business use, the contract hire industry rubbed its hands with glee.

Here, surely, was the catalyst that would turn all but the most diehard conservative companies away from buying and managing their own cars, and towards the worry-free simplicity of the monthly rental payment and all-in maintenance of contract hire.

Their optimism appeared to be well founded as last August 1, the introduction date for the new VAT rules, approached. For a start, the new rules in effect applied overwhelmingly to the contract hire and leasing industries, because a user company buying its own cars was debarré from reclaiming VAT on any car that travelled even a mile on non-business use.

Contract hire companies could cut monthly rentals quite sharply, at no cost to themselves, by passing on all - or most - of their own ability to reclaim VAT on their car purchases. It could not be by the full 17.5 per cent because VAT still had to be accounted for on the proceeds when the car was eventually sold after the contract hire period.

In addition, however, the rules allowed companies using contract hire or leasing to reclaim 50 per cent of the lease element of the monthly rental, even if a driver enjoyed private use of the car. Finally, the contract hire and leasing companies could now reclaim the VAT on service elements of the contract such as maintenance and roadside assistance.

Mr Colin Thornton, head of marketing at ACL, the vehicle management arm of Standard Chartered Bank, was quick to suggest that rentals would drop by around 8 per cent and that many companies, as a

result, would re-examine the way in which they acquired their cars. Using a computer model developed by accountants KPMG, ACL calculated that the operator of 100-car fleet on a three-year replacement cycle, with an average cost of capital of 10 per cent over the period, would save around £65,000 by using contract hire. The calculations remain valid. The trouble is that the contract hire industry waited for fleet managers to beat a path to its door - and is waiting still. "It was a big non-event," says Mr David Knight, managing director of PHH Vehicle Fleet Services.

According to the latest annual Tolley Dial Survey of Company Car Schemes*, the Monks Partnership's 1996 report on company car policy** and other studies, it was worse than that. The report showed a significant drop in the number of companies acquiring cars through contract hire and leasing, with 62 per cent of cars still being the subject of outright purchase by their operating companies. The Monks study shows an increase of 3 percentage points, from 33 per cent to 36 per cent, in the number of surveyed companies opting for contract hire. Both illustrate clearly the contract hire industry's disappointment.

"Tolley's figures came as a bit of surprise to us because we have seen record growth of around 40 per cent in our own contract hire operations over the past two years, and expected this to increase following the VAT changes," says Mr John Lewis, a director of Dial, Barclays Bank's vehicle management services subsidiary which operates 65,000 cars.

However, he claims that Dial's own research shows that 80 per cent of companies are planning to use contract hire to fund their fleets in the future, and suggests that the main problem is that the significance of the VAT changes has not yet fully dawned on medium- and smaller-sized companies. Controversially, he maintains that some of the leading fleet management companies are to blame, for concentrating on the biggest fleet deals and starving smaller businesses of adequate levels of advice and assistance.

*Tolley Dial Survey of Company Cars 1995/96, Tolley Publishing Company, Tolley House, 2 Addiscombe Road, Croydon, Surrey CR9 5AR. £17.50 **Monks Car Policy UK, Monks Partnership, The Mill House, Wendens Ambo, Saffron Walden, Essex CB11 4JX. £165

PROFILE Davis Service Group

Overall financial control

The 900 cars and 400 trucks used by companies within the Davis Service Group are the subject of a new agreement with Lex Service in a contract with a lifetime value of over £21m.

Davis Service Group, which includes HSS Service Hire Group, the Pall Mall Service Group, Sunlight Service Group and the Elliott Group, takes group responsibility for the financing of assets.

But it leaves all operational matters in the hands of the individual companies, each of which has its own Board of Directors.

Mr Terry Winter, the group finance manager, says that group financing in general was reviewed at the end of 1994 and early in 1995: "One debate was whether we should continue to fund

non-income producing assets such as vehicles by overdraft, or whether they should be separately financed. "We looked at various financing options and also at a multitude of fleet operational options. Obviously we wanted to use the power of the group to get the best possible deals, but it was also important that our group financing requirements should have no adverse effects on the operational requirements of the individual companies."

The decision to switch to Lex Service, whose Lex Vehicle Leasing looks after the cars and Transfleet the trucks, was based in part on Lex's dedicated truck leasing company and its expertise in this area. But it was also because it was able to provide

what Mr Winter describes as "a one-stop shop." Under the agreement, for example, HSS used contract hire without maintenance but with fleet management for its fleet of 230 cars and 330 commercial vehicles. Other companies in the group, however, have opted for finance leases because, taking into account the use of the vehicles in their own fleet and the length of time they remain in service, this appears a better option.

"We get advice from Lex that ensures we choose the right financial instrument for each particular application, and they then provide the finance and the services that we require," says Mr Winter. At one of the subsidiaries, HSS Service Hire Group, which supplies a variety of

tools and items of plant to customers on hire or a direct sale basis, Ms Alexandra Sard, the fleet manager, said that they had opted to switch from buying vehicles outright to new contract hire arrangements with Lex.

"In the past, when there were no VAT drawbacks available, there seemed to be no strong advantage to not buying vehicles outright and so we bought all our fleet of cars and light commercial vehicles, with the exception of a small number of 7.5-tonne trucks used by Event Hire, the catering side of the business.

"However, once VAT could be reclaimed, it seemed a bit silly to be spending £9m on vehicles - my budget last year - when the advantages of contract hire had been increased.

"In addition, there is an element of protection in a contract hire agreement, particularly in terms of budgeting. And under the Lex contract, we have access to replacement vehicles and also overnight servicing, so there is minimum disruption to our operational staff."

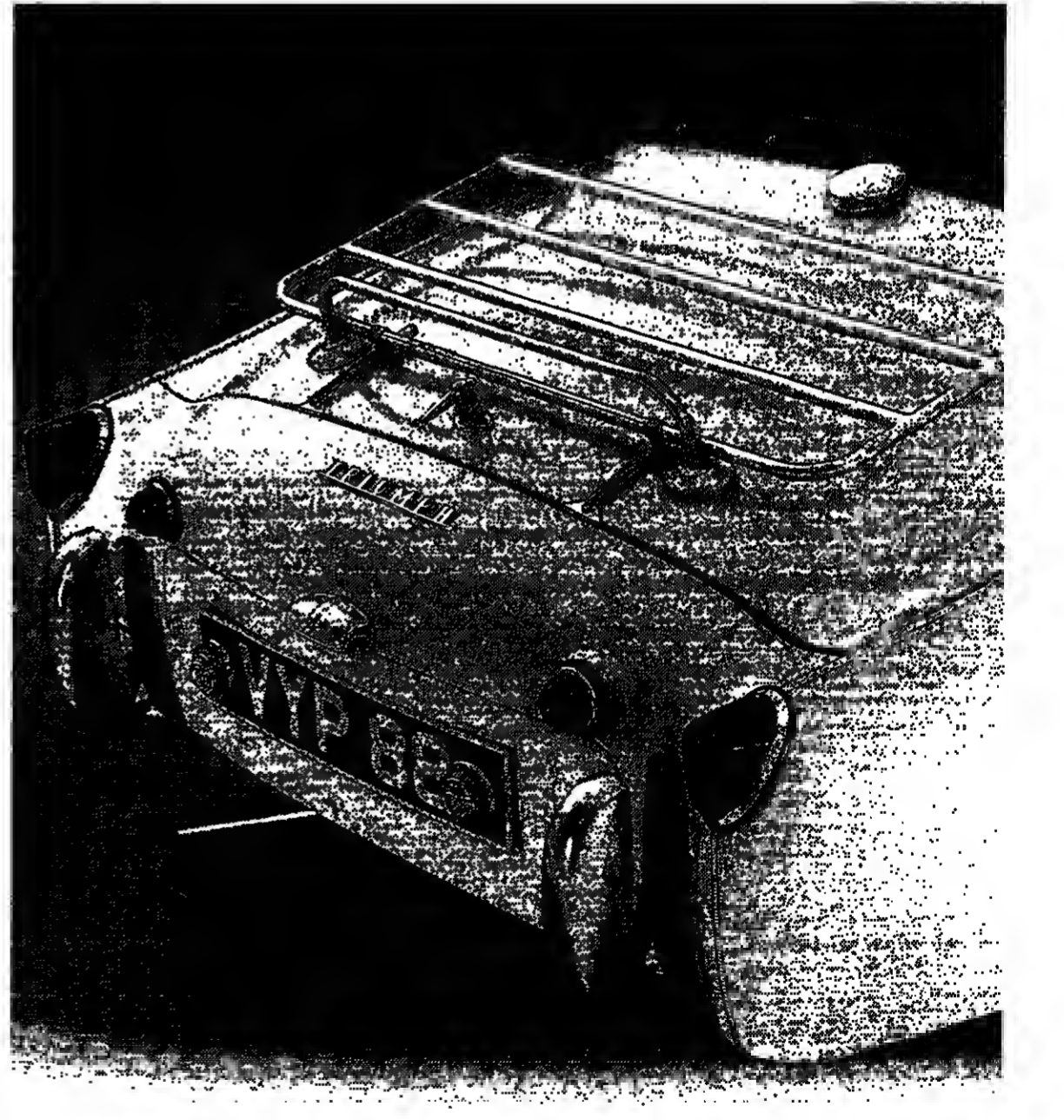
Currently, the 280-strong car fleet consists mainly of Ford Escort and Vauxhall Astra diesel estates which are used by depot managers around the country, plus some 80 management vehicles. These are subject to free choice within specific list price bands for different grades - but, according to a policy introduced some two and a half years ago, all must be diesel.

"This may change in future as we are now looking again at whole-life costs and because residual values of diesel cars are no longer what they were, we may change to petrol cars, though a final decision has yet to be taken," says Ms Sard.



Vauxhall Astra diesel estate: one of the workhorses of the fleets within the Davis Group

Martin Derrick



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IV VEHICLE FLEET MANAGEMENT

Computers: by George Black

Cost-cutting and efficiency

Because of lack of experience ease of use is a primary requirement in fleet management

Using a computer system to support fleet management can make a big difference to the efficiency and cost-effectiveness of the operation.

Computer companies are introducing easier-to-use systems with more advanced functions which could greatly enhance their value, through the adoption of simple graphical user interfaces (GUIs) and simple searching methods based on executive information system (EIS) software.

Functional advances are enabling users to take up electronic commerce, or electronic data interchange (EDI) which can make considerable financial savings through replacing paper business with computer transactions. Money can also be saved by replacing bulging filing cabinets with disk storage through document image processing.

Fleet management systems can cost from a few hundred pounds to \$50,000, depending on the size and complexity of the fleet. As systems improve, more fleet managers may consider whether they should increase their investment.

However, Mr Alan Pascoe,

marketing executive for supplier RMS Tranman, says they generally fail to recognise that these systems are of strategic value. "Many of them are backward in information technology and very reluctant to invest," he says.

This is attributable partly to tight margins in the transport industry and partly to the fact that fleet management is not the core business for many buyers. But in many cases, says Mr Pascoe, they are just not willing to be convinced of the benefits of IT. Often it is hard for suppliers to get to talk to senior managers who might be more receptive. Fleet management organisations remain to a large extent behind the times in adopting IT and in some cases wholly uncomputerised. Some are starting to

computerise workshops for the first time.

There are around 30 systems suppliers to the UK market. Fewer than a dozen dominate the market for large multi-user installations, but the number of products available at all levels of sophistication has risen sharply in the past few years.

This gives buyers more choice, but it has also created confusion about what the products can do. Products vary greatly in their capabilities and it is important for users to ensure that they choose one which is designed for their area of business. Local authorities, for example, may need a package with considerably more flexibility than most private sector users.

Many users are moving from proprietary systems running

on large computers to open systems or client/server systems. Others are looking to move up from personal computer systems running the Microsoft DOS operating system to something more powerful.

The preferred approach for the latest systems is the client/server structure, with processing typically split between a server running on Unix software and a personal computer front end. The recent convergence by suppliers on the client/server model has created even more competition in the market. Ease of use is a primary requirement in fleet management because many users have little or no computer experience. Those who have any experience are most likely to know the popular PC spreadsheets and want a system that looks much the same.

Another essential feature is the ability to deliver a substantial cost reduction to justify the investment. The market has changed radically in the past decade. Many users, such as the privatised utilities, have re-structured their businesses to make fleet management a profit centre, providing a service to the parent company. Many local government users have outsourced fleet management since compulsory competitive tendering was introduced in the 1980s.

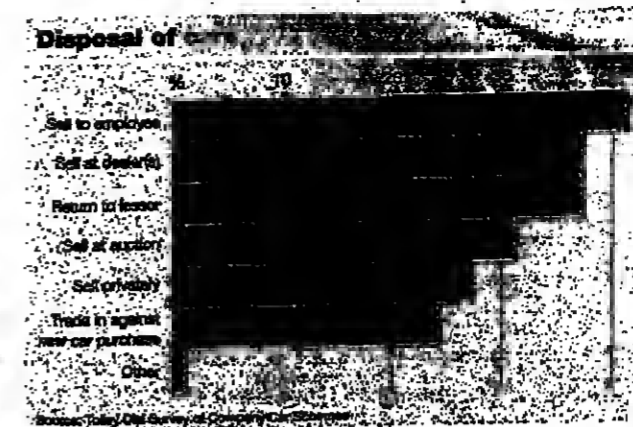
These changes have forced systems developers to re-design their products. Sanderson FCS (formerly Fletcher Computer Services), one of the leading suppliers, has spent over three years on a multi-million pound re-development programme, converting its products to a client/server structure with a Microsoft Windows front end. Its sales director Mr Paul Foksett says it decided to undertake that project when the market began to change with the growth of privatisation and outsourcing.

Some new fleet management profit centres now not only provide a service to their parent company but also use their spare capacity to manage fleets for others. "To make a profit from fleet management you need to use computer systems to full effect. A good system can provide a real competitive edge," says Mr Foksett.

Mr Chris Elvin, fleet depart-

ment manager for supplier Kerridge Computer Company, says the market is moving from pure-fleet management systems to broader, integrated contract hire and leasing systems. These may include modules for other aspects of the business, from marketing to contracts to accounting.

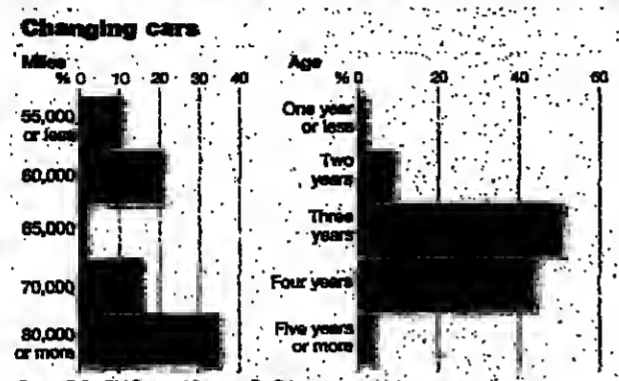
All users want to reduce paper. Even a small fleet of 100 vehicles can generate a large amount of paperwork; for a fleet of 10,000, it can turn into a nightmare. For many users, document image processing has begun to condense that diverse data into a format which can be held on a single disk, comprising invoices, repairs and maintenance



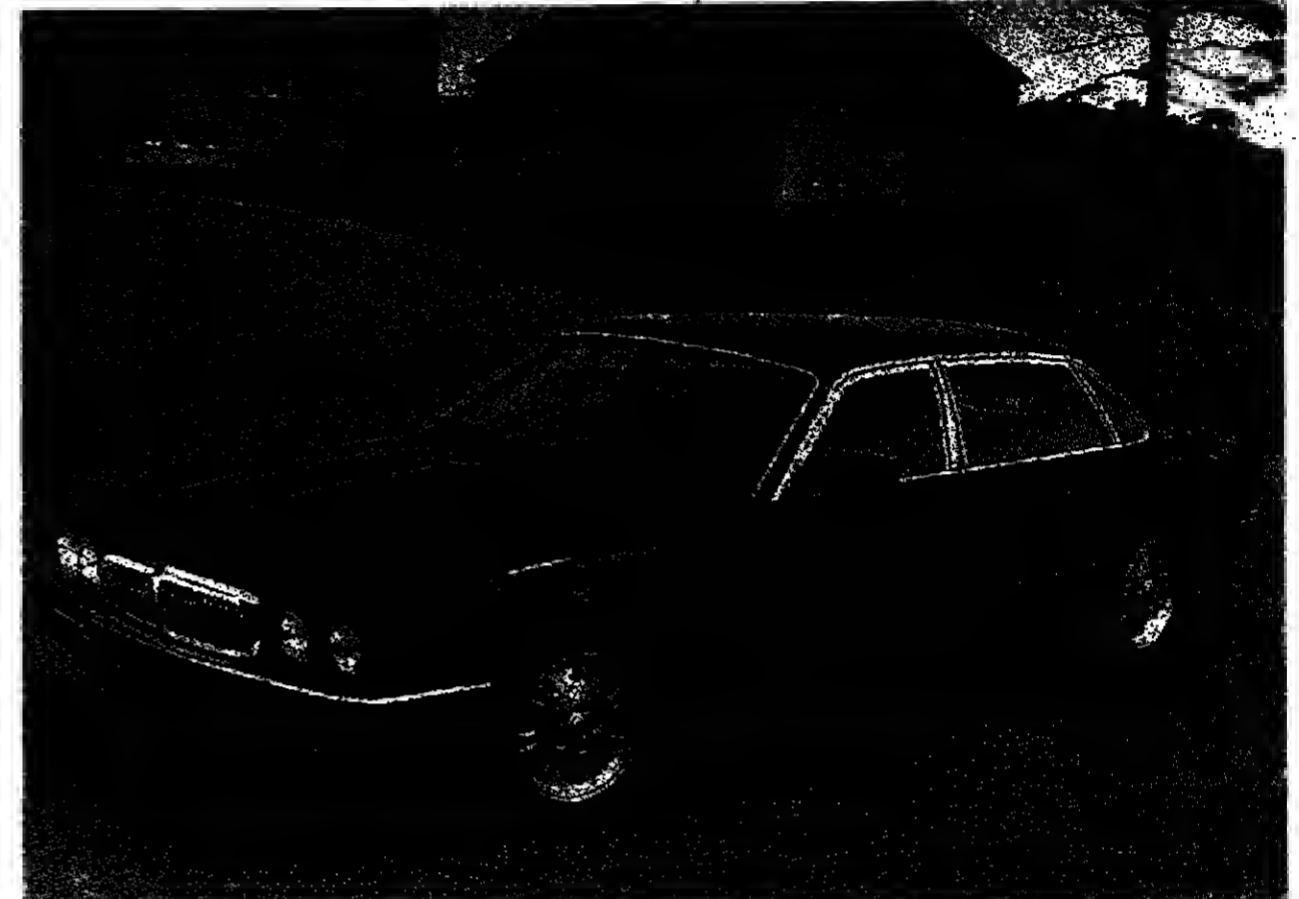
types of tyre wear best and which drivers are abusing their tyres and prompt an early response.

The spread of handheld devices could contribute to cost reduction, as they become part of the electronic commerce process. For example, accident repairs could be streamlined by feeding price information from handheld terminals in the stores to the insurance company for authorisation. However, the spread of electronic commerce is still held up by lack of standards. Fleetnet, the industry standards committee, is struggling to get vehicle manufacturers to agree on standard formats for part numbers. "1997 must be the year for this, we can't wait any longer," says Mr Elvin of Kerridge.

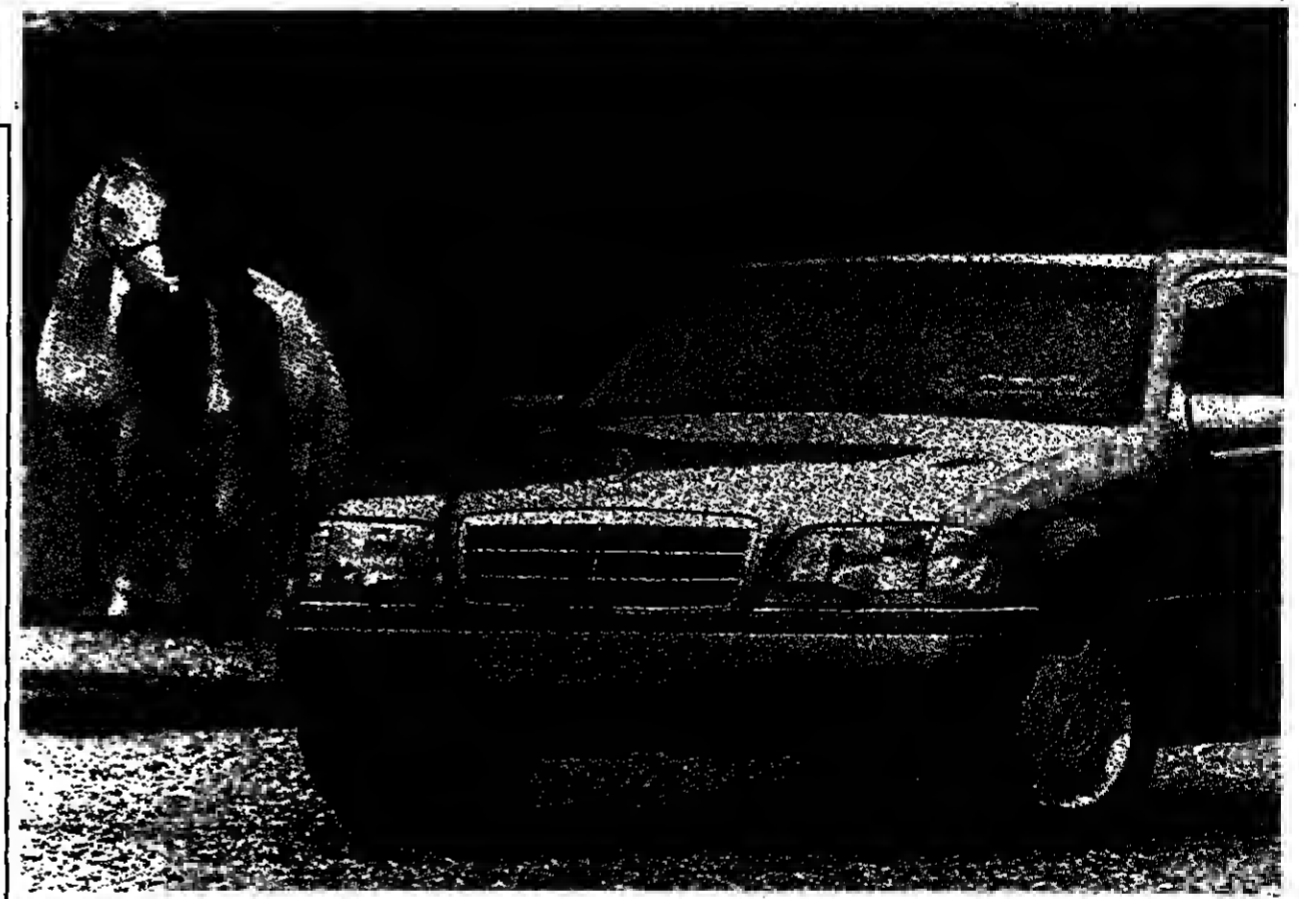
George Black is a freelance IT contributor to the FT



Trends in proposed modifications to car policies (%)	1991	1992-93	1993-94	1994-95	1995-96
More diesel cars	17	27	38	44	23
Higher salary, no car	46	53	54	37	28
Keep longer	43	46	36	31	28
Tighten up on use	38	28	25	27	31
Cheaper cars	-	-	14	20	16
Wider choice	-	-	7	15	18
Higher salary, cheaper car	-	-	18	11	12
Buy used cars	18	15	15	10	15
Base choice on CFI rate	-	-	11	10	14
Hire/lease instead of buy	9	7	8	8	23
Buy instead of hire/lease	-	-	6	8	5
Will you modify policy? No	20	24	27	38	43



Jaguar Sovereign 4.0 LWB: a stylish and valuable contribution to the higher ranks of any vehicle fleet.



Mercedes-Benz C-class: a model of elegance giving a stress-free ride for the executive who can wheedle a little more out of his company.



Mr David Voss, the managing director of Velo Insurance services, ranked by top car makes ranked by the lowest average accident repair costs.

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VEHICLE FLEET MANAGEMENT V

How the latest models go by Stuart Marshall

Big need not mean beautiful

Direct-injection, turbo-diesel automatic cars offer a seductive combination

Since company cars have been taxed on price, not a mix of price and cylinder capacity, executives have no longer had to stay below the 2.0-litre barrier but have more than 20 attractive multi-cylinder engine cars to choose from.

For a combination of value for money plus mechanical refinement, the Ford Mondeo 24v 2.5 is almost in a class of its own though the equally keenly priced Vauxhall Vectra

2.5i V6 GLS runs it closely. Two other cars for users-chosen with £20,000 spending limits and a liking for the good things of motoring such as air conditioning and automatic transmission are Nissan's QX 3.0 (successor to the Maxima) and the Renault Laguna V6 3.0. The 2.0-litre and 3.0-litre V6s powering the Nissan QX 3.0 run with turbine smoothness. I also rate the Laguna V6 highly for silence and comfort with vigorous performance.

At this price level there is an agonising choice to be made between a multi-cylinder model of a marque that does little for an executive's personal status, and a less highly specified car with a badge that

excites envy. (For example, a Ford, Vauxhall or Renault on the one hand, a BMW or Mercedes - and increasingly an Audi, Rover or Saab - on the other.)

If a user-chooser can wheedle a small amount of extra money out of his company - or chip in a modest sum of his own - a 6-cylinder BMW 3-Series or C-Class, Mercedes-Benz becomes possible. And if not, there are always 4-cylinder versions of both cars, sans automatic transmission and air conditioning, to consider. Audi, Rover and Saab have narrowed the gap separating them from the prestigious rear-wheel driven German pair. Performance-obsessed motoring pub-

lications still nit-pick over handling differences between, say, an Audi A4, Rover 600 and Saab 900 that would be revealed only if they were driven in a way no responsible person would contemplate. Most of us could live easily with any of them. It really comes down to personal preference over things like styling, the size and shape of the boot and seat comfort.

Before leaving the Mondeo/Cavalier segment, the Citroën Xantia Activa is in a class of its own for keeping driver and passengers in ignorance of bends as well as bumps in the road. Computer-controlled suspension eliminates body roll as well as maintaining a constant ride height and attitude regardless of load distribution. And the new Peugeot 406 is so unimpressed one could believe they would run for ever.

As fuel prices rise remorselessly, a direct-injection turbo-diesel automatic car (like the Audi A6) offers a seductive combination for a cost-conscious, high-mileage business executive.

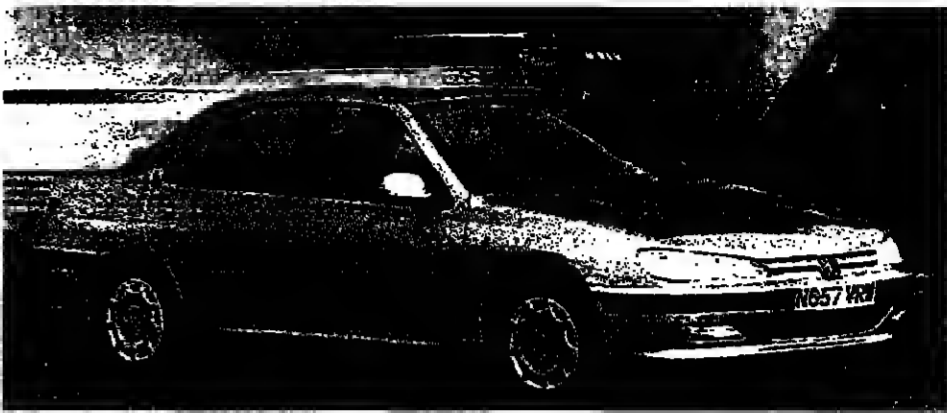
Reports of an impending sudden decline in the on-off road four-wheel drive estate car market seem to have been greatly exaggerated though I have never quite understood

for the first minute or two after start-up from cold, they sound and go more like petrol-powered cars. The best engine at present is the in-line 6-cylinder BMW turbo-diesel of 2.5-litre capacity, used in Range Rover and Vauxhall Omega as well as the BMW 3-Series and 5-Series. But for muscularity and general refinement the 2.5-litre, 4-cylinder engine with contra-rotating balance shafts used by PSA in the Peugeot 605 and Citroën XM is snapping at its heels.

For sheer performance and economy, the diesel executive cars to beat are the Audi A6 and Volvo 850 models powered by Audi's direct-injection 5-cylinder engine producing 140 bhp. Rover's 600 SLD 2.0-litre - and soon the Honda Accord with the same Rover-supplied 4-cylinder, direct-injection, turbocharged engine - offer similar benefits. The fully encapsulated engines of the Mercedes-Benz C-Class and E-Class are not currently turbocharged. While not in the top rank for vigour, they are class leaders for lack of disturbance while idling and feel so unimpressed one could believe they would run for ever.

As fuel prices rise remorselessly, a direct-injection turbo-diesel automatic car (like the Audi A6) offers a seductive combination for a cost-conscious, high-mileage business executive.

Reports of an impending sudden decline in the on-off road four-wheel drive estate car market seem to have been greatly exaggerated though I have never quite understood



Peugeot 406 GLX/GLXDT: it brings the highest standards within the reach of the lower management classes



Mondeo Si 2.5 V6: for value and mechanical refinement almost in a class of its own

conscious, high-mileage business executive.

their appeal as executive or luxury car alternatives. But the new generation of multi-purpose vehicles like the Ford Galaxy and VW Sharan, Citroën Synergie, Fiat Ulyssee and Peugeot 906, Renault Espace and Honda Shuttle are

attracting users who want lots of interior space and a high seating position but have no need of four-wheel drive. The V6 engine Galaxy and Sharan perform vigorously and ride comfortably enough to satisfy most executive motorists.



Audi A6 2.5 TDI 140 SE: for sheer performance and economy this is the diesel executive car to beat

Model	Total	Size of fleet				
		<10	10-19	20-49	50-99	100+
Ford Fiesta	12.9	-	-	-	12.8	12.9
Sapphire/Mondeo	10.5	-	11.5	9.5	8.5	10.6
Ford Granada/Scorpio	9.8	-	15.0	11.1	14.3	9.6
Vauxhall Cavalier	13.5	9.0	13.2	9.2	9.1	13.9
Carlton/Omega/Sentinel	14.4	-	14.2	7.4	8.8	14.9
Rover 200/400	8.5	8.0	10.8	9.8	8.1	8.4
Rover 600	8.7	-	8.0	10.1	9.2	8.5
Jaguar/Palmer saloon	8.4	-	-	2.0	7.9	8.4
Peugeot 306/505	10.1	-	9.0	8.7	12.0	9.7
Peugeot 405	19.0	-	10.0	8.1	12.1	18.9
Renault 21/Laguna	10.5	-	8.0	12.0	12.0	10.1
Citroën BX/Xantia	10.8	-	8.3	9.6	15.0	8.8
VW Golf/Vento/Jetta	9.5	-	12.0	-	-	9.5
Audi 80/90	7.4	-	10.5	10.0	-	7.1
BMW 3 Series	6.9	-	5.0	9.5	8.5	6.9
BMW 5 Series	7.0	-	8.5	5.0	7.0	7.1
M-Benz 190C Class	7.0	-	8.0	-	-	7.0
M-Benz Midsize E Class	8.6	8.0	7.7	11.0	-	8.6
Volvo 440/460	8.2	-	-	-	15.0	8.1
Saab 900	8.8	-	10.0	11.0	12.0	8.4
Nissan Primera	9.8	-	10.0	8.0	17.0	9.8
Toyota Carina	7.0	-	13.0	-	-	7.0

Source: Tolby Del Survey of Company Car Schemes

Mobile communications: by Haig Simonian

More callers on the line

Devices to monitor speed, engine revs and distance can lead to safer, legal driving

From policemen to plumbers, people are spending more money than ever keeping in contact on the move. Mobile communications have mushroomed as hardware prices have fallen, services have been added and new participants have entered the market.

Agency has called for applications to operate a digital, and not just analogue, service.

Function is the usual way to determine which technology is most appropriate for a business. Paging, once very popular, has been largely superseded: although modern pagers can receive short messages as well as simply alerting the user to contact a predetermined number.

Such detailed supervision could translate into lower operating costs for the user through reduced fuel and maintenance bills. It could even assist in improving a company's public image by cutting down on poor driving standards or dirty exhaust emissions. Such environmental considerations have been a big factor behind the interest of some big supermarket chains (which often see environmental awareness as an important competitive consideration). Safeway, for example, uses RAM Mobile Data for engine monitoring purposes.

tended to be far more expensive than public access radio, while monitoring and control have been much more difficult. The technological restrictions of radio networks also limit the scope for abuse. Personal or international calls are impossible. Excessive usage is eliminated because connections are automatically terminated after 60 seconds.

It has no wheels, no engine, and came out in 1905

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Portable phones are more flexible as they can call any number on the phone network

has tended to be cost, with cellular phones being more flexible, but also much more expensive, than radio.

Mobile phones offer many advantages. They can be removed from vehicles - not possible with all radio systems, where size and weight restrictions on portable systems limits their range. Portable phones are also more flexible in that they can call any number on the phone network. Radio systems, by contrast, are restricted to a subscriber company's network. Moreover, the latest GSM-standard portable phones can be used in dozens of countries, whereas radio networks are limited to a nationwide, or, if a user wishes, regional coverage. National Band Three, the leading public access mobile radio operator for voice communications, now covers more than 90 per cent of business areas for its 60,000 customers.

But the far greater flexibility of mobile telephones has come at a cost. Usage has

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BECAUSE BUSINESS CAN'T STAND STILL

VI VEHICLE FLEET MANAGEMENT

Commercial vehicles by George Bennett

Truck market slows down

Several different factors, including the general election, have led to uncertainty

The UK truck market is heading for uncertain times after two years of strong growth. Last year, the total market above 3.5 tonnes grew by 17 per cent on 1994, to 52,261, according to figures from the Society of Motor Manufacturers and Traders, but manufacturers are now predicting a 1996 figure of only 50,000.

Low registrations in the first quarter of this year gave an annualised figure of 51,291, 2 per cent down on the 1995 total. The underlying position may be worse than that - perhaps as much as 10 per cent down according to some observers - and was only rescued by a burst of registrations by the Iveco group in the last 10 days of March.

Heavy truck specialists Scania and Volvo expect the heavy truck sector (above 15 tonnes) to decline. Mr Ulf Bundell, the managing director of Scania (Great Britain) says: "The sector won't be as strong as last year, we expect it to end up between five and 10 per cent down on last year, at 29,000-30,000 units." Mr Alistair Robinson, Volvo's general manager for trucks, agrees with the figure, and says that one reason for the reduced demand is better efficiency on the part of operators. He says: "The distribution system is getting more efficient. Five or 10 years ago an FL10 fleet tractor was doing 70,000 miles a year, now 100,000 is not uncommon. People are squeezing more out of their trucks, and the trucks are better built so they can take it."

Leyland Daf, currently second in the overall market (above 3.5 tonnes) with a 17.4 per cent share, paints the most pessimistic picture. Mr David Gill, the managing director says: "There's a feeling that we've seen a significant slowdown in the market, and worse than the first quarter figures imply."

Third-placed Mercedes (17.0 per cent share) is cautiously

optimistic. Mr Alan Grigg, Mercedes-Benz UK's general manager for commercial vehicle marketing, says: "There's been a slow rise in the medium van sector, and that's a barometer for the total commercial vehicle market. The market may be 2 per cent down for the first quarter, but a good September could change that to a plus."

Mr Grigg says that the market is difficult to predict, not least because of the impact of the change over to the new

and continuing low interest rates.

All the same, he says that Iveco Ford has trimmed its predictions for the 1996 market from 58,000 at the start of the year to 50,000 now. He says: "We've always said that the normal replacement cycle meant a market of 52,000-55,000; last year was normal and this year will be normal."

At Mercedes, however, Mr Grigg suggests that the expected upturn in the economy in the second half of the year

down 30 per cent. Unlike the past two years, when the heavy end of the market led the recovery, this year the light end is the strongest.

The big contract hire and rental fleets have cut back their buying compared with the past 18 months. Mr Christenson says that last year's boom was created by contract hire and rental companies buying heavy trucks, but now they were being more circumspect.

Mr Robinson says: "Smaller operators are continuing to buy at a rate similar to last year's, but the very big operators are slowing down; there are few 100-plus truck deals at the moment."

Mr Tony Pain, Leyland Daf's marketing manager, suggests that contract hire and rental companies are holding back because "they are fearful of the manufacturers themselves getting into contract hire."

Scania has added a rental arm to its contract hire operation and Iveco Ford has set up a joint venture with Securitor to offer both short- and long-term rental. Both Volvo and Mercedes-Benz have been promoting their in-house contract hire for several years. Mr Bundell says: "We need to provide that kind of service. Last year 20 per cent of our registrations were through contract hire and we expect that to grow to 25 per cent this year."

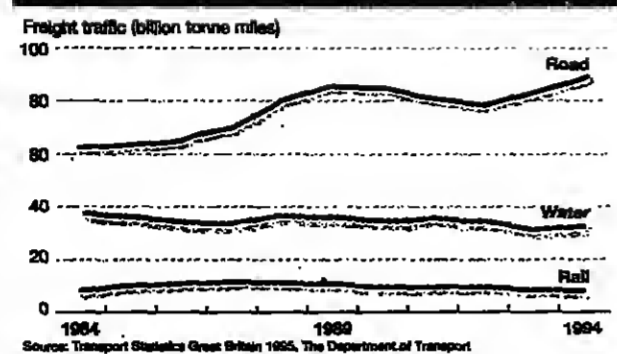
Mr Grigg sees contract hire as part of a range of services it needs to offer, from maintenance to finance. "We believe it's the age of the package sell. The market demands it, and it's an increasing part of our business."

Overhanging the whole truck market is the general election. It is no surprise that even here, opinion is divided. Mr Christenson says: "The election could knock us off course; it's one of the risks."

At Mercedes-Benz UK, Mr David Thomas, director for trucks, was more sanguine: "With new Labour, from a business point of view there would be no change, so a change of government won't affect the market. But many of my customers may not take that view."

George Bennett is the editor of Truck magazine

The increasing reliance of industry on road usage



Source: Transport Statistics Great Britain 1995, The Department of Transport

tighter exhaust emissions rules, known as Euro 2, which will apply to all trucks registered after October 1.

All manufacturers anticipate a September rush before the deadline as truck operators buy vehicles conforming to the current Euro 1 regulations, because they are cheaper. The introduction of Euro 1 in 1993 caused a considerable distortion in the market, and while most people expect the effect to be less this time round, no one is sure.

At Iveco Ford, which accounted for 92 per cent of Iveco group registrations (the rest going to Iveco-owned Scania) Mr Chris Christenson, the marketing operations director, expects the Euro 2 effect to add from 1,000 to 1,500 extra vehicles to the overall figure for the year, about half the increase preceding the introduction of Euro 1.

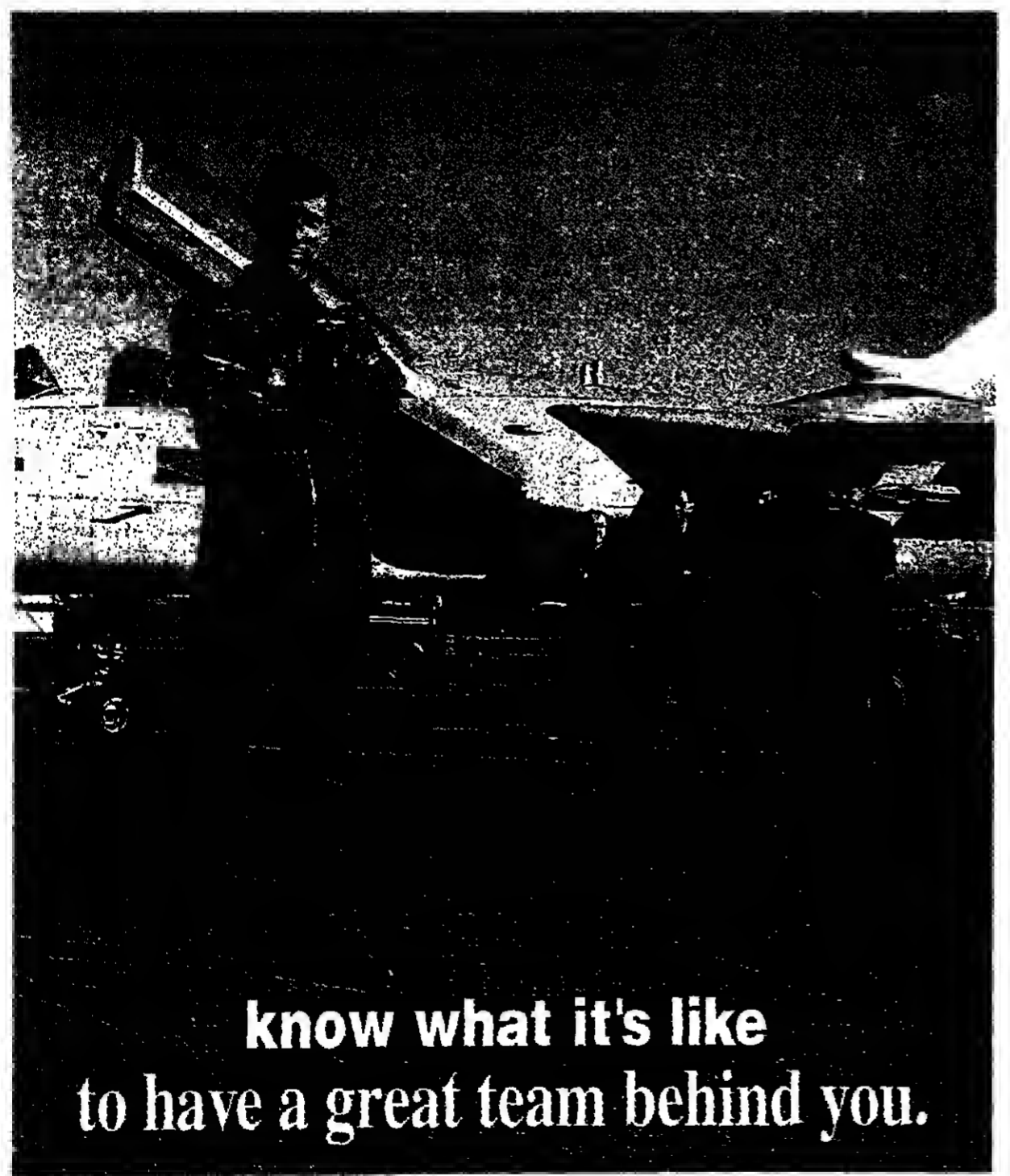
Mr Christenson is in the optimists' camp. He believes that demand for transport will be boosted by the increase in spending power in the economy from a combination of tax cuts, rebates from water companies and building societies,

might not translate into more truck sales. "Re-fleeting may not happen," he says, "because so much has already happened after the recession."

Another factor affecting the new vehicle market is the oversupply of recent second hand trucks, which has driven their price down, making them an attractive alternative to buying new. Many of these vehicles

A negative indicator is the 5 per cent decline in tractor units

arrive on the market in batches from expired contract hire deals. "The used vehicle problem may not go away," says Mr Grigg. A further negative indicator is the 5 per cent decline in the tractor unit sector, which led the market out of the recession over the past three years. Sales of specialist construction vehicles remain depressed, with 33-tonne eight-wheelers



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PROFILE The registration plate debate

August's uncontrolled bulge

Like Frankenstein's monster, the UK August new car sales "bulge" caused by annually changing the number plate prefix letter has become enormous and out of its inventors' control. After 30 years on the loose, it is now in the cross-hairs of industry and government. Soon, they intend, it will be dead.

Conceived as a means of helping space sales more evenly through the year - in the 1960s the peak traditionally came with the New Year in January - the August 1 introduction of a new registration letter at first achieved the intended objective. But the desire to be first on the block with the new letter has become so pervasive - among company car as well as private drivers - that August now accounts for 25 per cent of each year's total sales. July accounts for only around 2 per cent. Dealers report that the "August effect" shows up in declining orders as early as May. So sales dry up at the very time that cash flow is

needed to prepare for the August rush and the extra stocking and other costs involved. Workshops become grossly overloaded as August 1 approaches, and feel cyclical aftershocks through the year

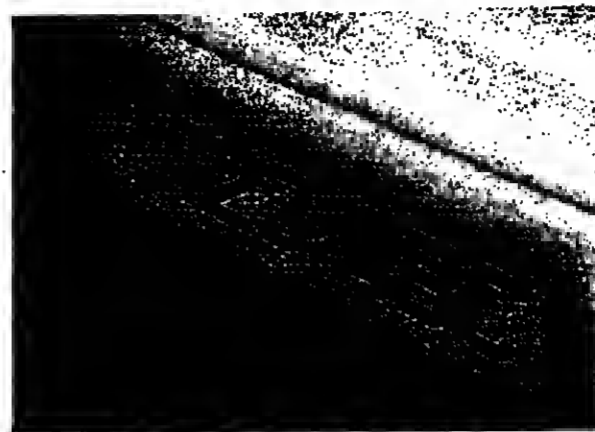
up with the Janssens' factor meant incremental sales, now accept that it is anarchistic. Flexible manufacturing and computerised logistics systems mean that an

lean distribution methods. If continuing talks between industry, police and government departments progress as planned, by next April a new system will be in place. The fine detail has yet to be worked out; but it is expected to involve a number plate format change at least twice a year, perhaps even quarterly.

Fleet managers cautiously welcome the prospect as potentially making residual value calculations less complicated, as the current value gap between cars sold in the same year but with different number plate letters starts to recede in significance.

A smoother sales flow should ensue. "The UK industry can no longer afford the cost of the August aberration," says Mr Ernie Thompson, chief executive of the Society of Motor Manufacturers and Traders, which has been leading the drive for change.

John Griffiths



A prototype how the new quarterly number plate might look

as bunched service intervals appear.

Most dealers who in the past defended the system on the grounds that the "hooping

industry already under fire for perceived high pricing now has the potential to cut costs substantially - and boost profits - by adopting

Specific car model	Method of allocating type of car (%)					
	Total	Representatives	Middle management	Senior management	Directors/partners	Others
Limited range of specified cars	28	27	19	11	1	33
Free choice within a price range	53	48	44	42	25	30
Free choice up to positive capacity limit	65	29	39	46	65	30
UK-made car	6	4	5	5	4	5
UK/EC-made car	4	5	5	4	4	2
Used cars allowed	13	12	11	12	11	10
	24	14	12	16	21	15

Source: Tolley Daf Survey of Company Car Schemes

Specialist management by Martin Derrick

A full contract hire option

Outsourcing is a growing trend, but customers are becoming more demanding

Full contract hire may eventually become the preferred option for most company fleets. But for many years to come fleet management can be expected also to have a vital role to play. In these circumstances, an external specialist company not only takes on responsibility for operating a company-owned fleet, but also helps with acquisitions, maintenance, repairs, insurance and accident management and then disposal.

Mr David Knight, managing director of PHH Vehicle Fleet Services says: "Our figures show that 55 per cent of the fleet market is unserved - the companies buy and operate their fleets entirely in-house. Of the 45 per cent that is currently served by third parties, around 50 per cent is contract hire and 40 per cent variations of fleet management. All the indications are that many of those companies that are currently unserved are now looking at their options - probably considering some sort of finance arrangement first, but then also looking at other services. What is certain is that awareness is growing, but at the same time the market place is becoming much more sophisticated. Clients understand what they expect of a third-party specialist fleet management company and they also know that there is fierce competition for their business. Customers want more for their money and so we have had to evolve our range of products."

Examples he provides are accident management services, the provision of accurate information on whole-life costs, and the provision of outsourcing services - in which the third-party specialist takes full responsibility for the day-to-day operation of the fleet, including dealing direct with company car drivers and thus reducing the necessity for the company to employ a full-time fleet manager and administrative team.

Mr Steve Dunn, commercial director at Lease Plan, suggests that outsourcing is a growing trend, but agrees that fleet management customers are becoming more demanding: "We used to be asked merely to provide cars at the best rate but now we find our customers wanting advice on finance, on the benefits packages they are offering their employees, on maintenance policies and insurance policies. We are finding they are prepared to pay more for extra service, though in turn, in order to provide that extra service, we are having to invest more heavily in data links, computers and systems generally. This is because the only thing that discriminates one fleet management company from another is levels of service, information, systems and the speed at which you are able to respond to your customers' needs."

Fleet management will continue to be in strong demand for the foreseeable future because many fleets are still operated without effective management controls, according to Mr Geoff Cobley, managing director of Fleet Management Services. There is no doubt that demand remains strong - but you have to get to know your client and see what their real needs are and then

meet those needs; long gone are the days when you could offer a simple choice of contract hire, finance lease or a single fleet management package," he says. Now, he adds, fleet management companies have to target specifically the mix of services that most closely match the precise needs of the fleet.

According to GE Capital - which recently acquired Avis Fleet Services' and Lease-contracs in the UK - bottom line costs remain vitally important to most fleet management customers. "Quite simply, our job is to help companies reduce vehicle operating costs," says

that we transact, and professionalism that comes from specialising in this field. What all this means is that we can reduce costs."

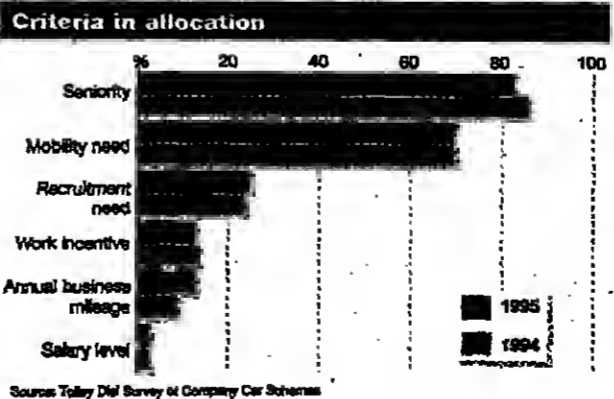
Meanwhile, many companies still wish to retain an element of fleet management control in-house, while still concentrating on that all-important cost control. At J. Sainsbury, what is described as the most advanced fleet management system on the market is employed: the Fleet Administration and Control System (FACS) from Godfrey Davis.

The on-line computer-based system is constantly updated by Godfrey Davis to provide all the information needed for effective fleet management and it also provides full vehicle details, taxation information and P11D and P46 reporting in order to minimise fleet users administration. The system can also be used for quoting and re-ordering of vehicles as well as analysing costs such as fuel and servicing charges.

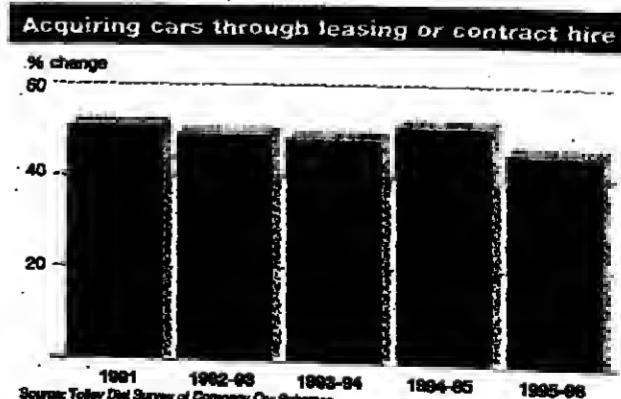
Mr Nigel Smith, responsible for the purchase of the J. Sainsbury fleet, says: "Cost control is central to our business and the FACS system provides us with the valuable management information which helps us to achieve this objective."

Mr John Lyons, managing director of Godfrey Davis says: "This technology points to the future of company car fleet management. It gives us the ability to respond to the issues of the day with timely and accurate information, data which enables our customers to take fleet decisions speedily, whilst simultaneously minimising administration."

Martin Derrick is a freelance journalist specialising in the motoring industry



Source: Tolley Daf Survey of Company Car Schemes



Source: Tolley Daf Survey of Company Car Schemes

	Private use by employee category (%)				
	Representatives	Middle management	Senior management	Directors/partners	Others
All costs paid	43	42	55	79	48
Staff pay for private fuel as they use it	46	44	36	16	39
Staff pay fixed cost per mile to cover private use	3	3	2	-	3
Staff pay for all fuel that reclaim business use at fixed cost per mile	8	11	7	5	9

Source: Tolley Daf Survey of Company Car Schemes

سكوا من الأهل

COMPANIES AND FINANCE: EUROPE

Fiat confident on prospects despite first-quarter drop

By Andrew Hill in Milan

Pre-tax profits at Fiat, the Italian automotive and industrial group, fell 24 per cent in the first three months of this year and operating margins were significantly down on the first quarter of 1995.

The news, which coincided with Fiat's annual celebration of its products at the Turin motor show, disappointed analysts and took the edge off the company's announcement that 1995 group profits had doubled to L2,147bn (\$1,38bn) after tax.

Fiat also proposed doubling its dividend to L100 per ordinary share, and increasing the payout to savings shareholders from L110 to L130 a share.

Separately, Mr Giovanni Agnelli, now honorary chairman of Fiat, yesterday confirmed that his family would buy the 2 per cent stake in Fiat that Alcatel of France has said it wants to sell.

Operating margins in the first quarter slipped from 4.4

per cent to 2.5 per cent, which Fiat blamed on reduced profitability in Brazil, the strengthening lira and heavy price competition in Europe. Profits reached L464bn before tax in the quarter, against L608bn in the equivalent period.

Fiat said it was still increasing sales and market share with the help of new models. The group added that it had budgeted for the first-quarter downturn and expected "a significant improvement" for the rest of the year.

Group net profit rose from L1,011bn to L2,147bn in 1995 and parent company profit from L66bn to L151bn.

The increase was heralded in January, in Mr Giovanni Agnelli's last letter to shareholders before his retirement as chairman.

The strength of Brazilian operations and the weakness of the lira were both important factors in Fiat's recovery from record losses in 1993. Brazil contributed an estimated L600bn-L650bn in profit last year.

Volvo chief signals weaker first quarter

By Hugh Carnegie in Stockholm

Volvo, the Swedish car and truck manufacturer, warned that sales of both cars and trucks were lower than in the same period last year, suggesting early signalling weaker first quarter results due next week.

Mr Sten Gyll, chief executive, added that the group, which is battling to carve out a future as a medium-sized independent manufacturer, would seek "effective and in-depth co-operation with sub-suppliers, other automotive manufacturers and development companies" in its effort to remain competitive.

But Mr Gyll reiterated Volvo's commitment to a heavy programme of investment in "strategically important areas" designed to secure its

long-term independence. He said its target over an industry cycle was to achieve an average return on capital of 12-15 per cent and operating margins of 5-7 per cent.

His remarks to Volvo's annual shareholders' meeting in Gothenburg were well received by investors, prompting the group's most-traded B share to rise SKr4.00 to SKr4.55 on an otherwise weak Stockholm bourse yesterday.

Mr Gyll said sales of Volvo trucks in the US and South America had been weak so far this year. Volvo said it expected total truck sales in Brazil, one of its main markets, to fall to 15,000 vehicles this year from 25,000 in 1995.

Cut sales had also been weaker than during the same period last year, especially in Europe.

Philips slides in line with warning

By David Brown in Eindhoven

Philips, the Dutch consumer electronics group, yesterday reported a slide in first-quarter profits amid weakening demand for semiconductors and consumer products.

Operating profits for the three months ending March fell from Fl940m in the same period last year, to Fl690m (\$406m). The results were in line with a warning issued in March.

Net profits from normal business operations slipped from Fl544m to Fl377m. Owing to a Fl118m jump in extraordinary income to Fl315m, associated with a public offering of Philips' shares in ASML Lithography, the group made a net profit of Fl692 against the Fl744m of last year. Overall turnover advanced 7 per cent to Fl15.63bn.

The group was cautiously optimistic that its troubled consumer division would

return to the black by the year-end, and that its earnings from normal operations would at least match the Fl2.68bn of 1995.

Mr Dudley Eustace, finance director, said Philips had based this forecast on the expectation of a modest economic revival in North America and Europe for the second half of this year.

Because of organisational changes, all divisional figures were restated for purposes of comparison.

In components and semiconductors, Philips managed a 17 per cent increase in volume sales to Fl2.89bn, while operating profit fell from Fl510 to Fl496m year-on-year. This decline was attributed to a strong erosion in semiconductor prices, especially for bulk memory and commodity chips in North America and Europe. The profitable components unit was able to "hold its own" and in some cases push through higher prices, and growth was more vigorous for

application-specific products.

Mr Eustace cited independent market research indicating that the overall market in which this division competed was still softening in North America but had stabilised in Europe.

He said Philips had not yet decided whether to float a shareholding in Taiwan Semiconductor Manufacturing Company in the second or third quarters of this year, but it intended to remain the single largest shareholder after the deal.

In the consumer products sector, Philips slipped from a profit of Fl162m to a loss of Fl52m on a 3 per cent higher sales of Fl6.19bn. Mr Eustace said the company hoped lower costs and better inventory management would enable it to return to the black by the end of the year.

Results at Grundig, Philips' loss-making German subsidiary, were worse than last year but in line with expectations.

Although "on target" with its rationalisation plan, the unit would probably end the year in the red.

Philips' strategic push into mobile communications was a drag on the consumer divisions' results had been. Mr Eustace said these activities, which ranked 9th or 10th in the world after such market leaders as Motorola, Ericsson and Nokia, would likely show a loss this year and next.

Philips confirmed that its new software and services sector - which groups its interests in PolyGram, Philips Media, Origin and Superclub - was one of nine bidders for MGM, the Hollywood film studio. Sales for this division advanced 3 per cent on a comparable basis to Fl2.44bn, but earnings slipped from Fl180m to Fl162m.

The lighting division, traditionally a cash cow, delivered stagnant sales of Fl2.16bn and a Fl4m drop in operating results to Fl274m.

Siemens 'on target' after midterm gain

By Wolfgang Minchau in Frankfurt

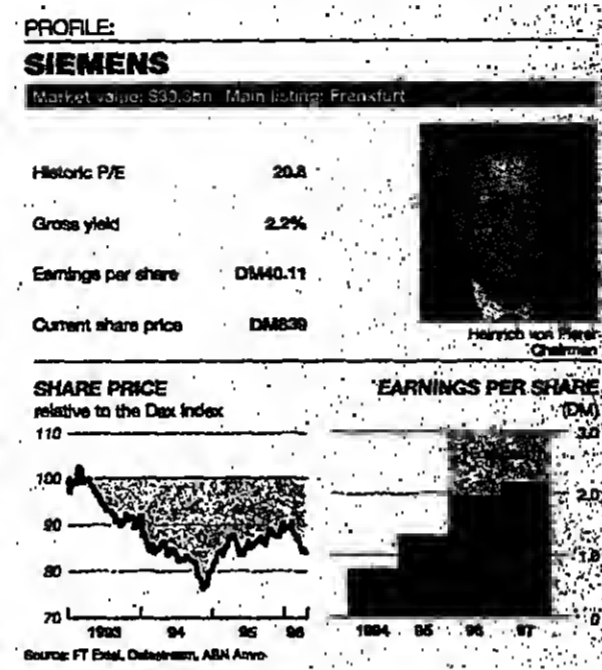
Siemens, the German electronics group, yesterday maintained that it was "on target" to achieve its forecast of net profit growth of between 20 per cent and 25 per cent in its current fiscal year.

The group reported yesterday that net profits during the six months to end-March rose from DM939m to DM1,081m (\$711.5m), a 15 per cent increase, but the company traditionally earns the largest part of its income in the second half.

Siemens' ability to meet its target will depend on a sustained favourable exchange rate - following the D-Mark's recent modest depreciation against other currencies - and the general economic outlook.

The group gave no profit breakdown of its divisions, but all units, except the fledgling networking division, are believed to be on course for profits by the end of the fiscal year.

The German economic downturn has affected Siemens' industrial activities, including the automation and plant construction units, but there was at this stage no sign



of recession, it said. Siemens warned, however, that it was sticking to its forecast of 7,000 job losses in its German workforce by the end of the fiscal year. Siemens is Germany's second-largest industrial company after Daimler-Benz.

with last year's figure.

Mr Peter Thilo Heiler, analyst at Vetsbank Research, said that "Siemens has a book-to-bill [order to turnover] ratio of 1.13, which is encouraging and which has not deteriorated since the end of 1994." He said the improved performance by KWU, Siemens' energy unit, was particularly encouraging.

The strong rise in international orders was largely the result of growth in Asia-Pacific (up 25 per cent) and in the Americas (up nearly 15 per cent). Total sales rose 5 per cent to DM42.8bn, made up of a 14 per cent rise in international business and a 5 per cent decline in Germany.

Of the divisions, the semiconductor group has remained the most profitable part of the company. The communications and components business experienced double-digit order growth. The transport unit suffered a decline in Germany which overshadowed an improved international performance.

Siemens also said "cost-savings reforms in the public health sector led to a drop in domestic orders for the medical systems group."

PETROFINA advertisement containing text about a shareholders' meeting on May 10, 1996, and details regarding the company's financial structure and shareholding.

To the shareholders of Great Nordic Ltd. advertisement containing a table of shareholdings and details of an Annual General Meeting on May 7, 1996.

NEWS DIGEST section containing several short articles: 'Stet increases its full-year dividend', 'Frère builds CLT holding', 'Accor boosts income 38%', and 'Cerus back in the black'.

Christiania Bank og Kreditkasse advertisement featuring a logo and text about floating rate subordinated notes due October 1997.

EDELAP advertisement for EMPRESA DISTRIBUIDORA LA PLATA S.A., offering floating rate notes due 1997.

U.S. \$400,000 National Westminster Bank advertisement for floating rate capital notes 2005.

Financial services advertisements including Futures & Options Traders, Margined Foreign Exchange Trading, City Index, and Offshore Companies.

Handwritten Arabic text at the bottom of the page: 'سكوا من الأصل'.

COMPANIES AND FINANCE: EUROPE

Roche workforce cut 18% in restructuring

By Daniel Green
Roche, the Swiss drugs company, cut its workforce by 18 per cent last year, to 50,497, in the restructuring that followed its \$5.3bn acquisition of US drugs company Syntex in October 1994.

integration has resulted in appreciable cost savings. Measures to raise productivity continued to be systematically pursued in all divisions. The job figures were published with results for 1995 that showed net profits rising 18 per cent to SFr3.87bn (\$2.74bn) from SFr2.86bn in 1994.

expected as much as SFr600, said Ms Birgit Kullhoff, pharmaceutical analyst at UBS in Zurich. There was a 18 per cent rise in the dividend, excluding the special warrant, to SFr64, and Roche Holding's dividend rights certificates recovered their earlier losses to close up SFr35 at SFr9.60.

Federal withholding tax. Because of restrictions imposed by US securities laws, the warrants will not be issued to or for the account of US holders of shares, non-voting equity securities or ADRs, the company said.

fine chemicals division fell 5 per cent in Swiss francs to SFr3.06bn from SFr3.2bn, but were up 5 per cent in local currencies. Fragrances and flavours' turnover also fell, down 6 per cent to SFr1.44bn from SFr1.53bn. The local currency rise was 4 per cent.

Belgacom to challenge GSM licence demand

By Greg Melvor in London and AFX News in Brussels

Belgacom, the Belgian telecoms operator, said yesterday it would challenge any government decision to demand a BF9bn (\$298.5m) payment for its GSM digital mobile telephone licence.



John Goossens: optimistic on 1996 prospects

Mr John Goossens, chief executive, threatened to take the case to the European Court of Justice if necessary. "If we come to a crazy solution we will have no choice but to take it as far as it needs to defend our case," he said.

up competition between GSM operators, he said. Mr Goossens said it was not fair competition for Belgacom to pay BF9bn in order to match the amount paid by Belgium's second GSM operator, Mobistar, which is majority-owned by France Télécom.

Stora registers 34% drop in net income in opening quarter

By Hugh Carnegie in Stockholm

The recent downturn in pulp and paper markets was demonstrated yesterday when Stora, one of Europe's leading forestry products groups, reported a 34 per cent fall in first-quarter profits.

ble at 19 per cent and 15 per cent, respectively. However, the group saw sales in all product segments fall, with all areas except printing papers showing lower operating income, or losses.

The Swedish group said income after financial items tumbled from SKr1.8bn in the same period last year to SKr1.2bn (\$178.8m), broadly in line with market expectations.

One of the hardest hit areas was pulp, where sales slipped from SKr1.76bn to SKr1.1bn and an operating profit of SKr428m in the same quarter last year was followed this year by a SKr28m loss.

Mr Lars-Ake Helgesson, chief executive, was careful not to raise expectations of a quick turnaround in the highly cyclical industry, which has seen falling prices and lower demand in many segments in recent months. "We don't see any substantial change in the market outlook over the next half year," he said.

Less gloomy for Stora, which is not heavily weighted in pulp, were the results for printing papers, and board and packaging papers. Sales of printing papers reached SKr2.7bn compared with SKr2.8bn last time, while operating profits jumped from SKr468m to SKr832m, reflecting higher prices for newsprint.

Sharp profit reverse at Lego

By Hilary Gernes in Copenhagen

Net profits at Lego, the Danish toys group, more than halved last year, from DKr470m in 1994 to DKr235m (\$39.8m), as sales slid 8.8 per cent from DKr5.70bn to DKr5.21bn.

cent from DKr697m to DKr418m, and profits before net financial items fell from DKr858m to DKr497m.

The fall was blamed on tough competition in the toys market from PC and CD-ROM products, fierce price competition, a fall in the average level of consumers' expenditure in several main markets, and adverse foreign exchange movements.

While 1995 did not live up to expectations, the executive directors' report said there was no reason for pessimism. Lego will itself take up competition with digital products by launching its own CD-Rom

this year. It also expects that the Legoland leisure park at Windsor, near London, which was opened in March, will generate interest in Lego products not only in the UK but all over Europe.

Profits after net financial items were down by 40 per

cent. But sales in Europe disappointed, falling by 8 per cent.



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Impala Platinum Holdings Limited
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(Registration number 570197906)
("Implats")
Merger with Lonrho's platinum interests
The European Commission ("EC") announced today that after an intensive four-month investigation, it had voted against the merger of Implats' and Lonrho's platinum interests.

PETROFINA
Shareholders are invited to attend the ANNUAL GENERAL MEETING in Brussels, at 52 rue de l'Industrie, on MAY 10, 1996, at 3 p.m. (Brussels time), with the agenda: (1) Report of the Board of Directors on the financial year 1995. (2) Auditor's report on the financial year 1995. (3) Annual accounts for the year 1995. Board's proposal to approve these accounts. (4) Allocation of profits. Board's proposal to distribute a gross dividend of 352 francs per share. (5) Discharge of Directors. Board's proposal to grant a discharge to the Directors for the performance of their duties in 1995. (6) Discharge of auditors. Board's proposal to grant a discharge to the auditors for the performance of their duties in 1995. (7) Statutory appointments: (a) Board's proposal to re-elect Vicomte Etienne Davignon, Mr Henrique Bardenia Vieira, Mr Guy Dejouany, Mr Gilles Samyn and Baron Luc Wauters as directors for 6 years. (b) Board's proposal to elect Kijmyweid, Peat Marwick, Goerdeler represented by Mr Georges Timmerman and Mr Karel Van Oostveldt for 3 years as auditor. (8) Remuneration of auditor. Proposal to fix the remuneration of the auditor in accordance with the amount proposed by the Board and agreed by the auditor. (9) Any other business. The meeting room will be accessible from 1.30 p.m. onwards. At 2.15 p.m., a film about Petrofina and affiliated companies' activities in 1995 will be shown. The bearer shares may be deposited until May 7, 1996 at: Banque Bruxelles Lambert - Générale de Banque - CGER-Banque - Kredietbank - Banque Paribas Belgique - Banque Nationale de Paris - Crédit du Nord - Banque Int. à Luxembourg - Banque Gén. du Luxembourg - Commerzbank - Deutsche Bank - Dresdner Bank - ABN-Amro Bank - Crédit Suisse - Société de Banque Suisse - Union de Banques Suisses - Credito Italiano - Barclays Bank (Throgmorton St., London) - Citibank N.A. (ADR Department) USA. The annual report is there also available. The Board of Directors
Petrofina 52 rue de l'Industrie - B-1040 Bruxelles
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Bank of America advertisement featuring a large image of a classical building and the bank's logo.

COMPANIES AND FINANCE: THE AMERICAS

Reorganisation blamed for downturn at Unisys

By Louise Kehoe in San Francisco

Unisys reported deeper than expected losses for its first quarter as the US computer and information services company realigned its operations into three new business units focused on computer equipment and services.

The reorganisation caused some disruption during the first half of the quarter, said Mr James Unruh, chairman and chief executive, but "the worst of the confusion is now behind us" and business picked up in the last month of the quarter, he said.

Unisys reported a net loss of \$13.4m, or 25 cents a share, compared with net income from continuing operations of \$4.6m, or 9 cents a share in the same period last year.

Excluding the company's defence business, which was sold in May 1995, income from continuing operations in the first quarter of 1996 was \$32.1m, or 2 cents a share.

Wall Street analysts had been anticipating a loss of about 15 cents a share. Revenue for the quarter was \$1.42bn, compared with \$1.46bn in the year ago quarter. In addition to the effects of the reorganisation, revenues and profit margins in the first quarter were affected by lower shipments of Unisys' mainframe systems, Mr Unruh said.

PROFILE

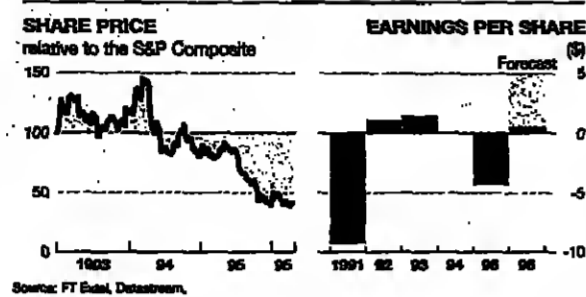
UNISYS

Market value \$1.13bn M. in listing NEW YORK

P/E (1996 estimate)	12.5
Gross yield	nil
Earnings per share	(\$4.37)
Current share price	\$8.25



James Unruh Chief executive



Source: FT Stock Datastream



Revenues from computer systems dropped by 19 per cent in the quarter.

Mr Unruh attributed the decline to anticipation of a new range of computers that were introduced after the end of the quarter.

These new ClearPath servers will run both Unisys mainframe software and Unix or Microsoft's Windows NT operating systems on a single computer. Revenues from information services increased 14 per cent, and the newly formed Global Customer Services unit increased revenues by 9 per cent.

Turnround at Data General

By Louise Kehoe

Data General, the US manufacturer of mid-range servers that has been struggling to achieve sustained profitability, reported increased revenues and improved profits for its second fiscal quarter.

Net income for the period was \$6.3m, or 15 cents a share, on revenues of \$335.2m. In the same period last year there was a net loss of \$11.1m, or 30 cents, on revenues of \$283.8m.

Data General "is still in a period of product transition and [we] remain cautious for the short term," said Mr Ronald Skates, president and chief executive. However, second-quarter results "were most encouraging", he said, with revenues up 18 per cent.

Product revenues increased 29 per cent over the same period last year, based on strong growth in sales of data storage products, the company said. Revenues from the company's line of Unix servers were flat, however.

For the first six months of fiscal 1996, net income was \$11m, or 27 cents a share, against \$13.1m, or 35 cents, in the same period last year. The 1995 figures included a one-time, pre-tax gain of \$4.6m from the settlement of a software copyright and trade secret lawsuit against Northrop Grumman. Revenues for the first six months of 1996 were \$662.8m, up from \$566.0m in the 1995 first half.

Acesita poised to take stakes in three steel groups

By Jonathan Wheatley in São Paulo

Acesita, the Brazilian steelmaker, is to pay up to \$850m for shareholdings in three other Brazilian steel groups in what the company called "the start of a new restructuring of the Brazilian steel industry".

Acesita plans to buy stakes in CST, Cosipa and Usiminas held by two Brazilian banks, Bozano, Simonsen and Unibanco. "But for Acesita it doesn't seem to make very much sense," she said.

There was little common ground between Acesita's business and that of the other three, and Acesita's shareholders were likely to see their stakes diminished in a planned capitalisation to pay for the purchase.

Prices of shares in all four companies seemed not to have reacted to the announcement. Acesita will call a shareholders' meeting at the end of next month to propose funding the deal through a public share issue. The company said it hoped existing shareholders would subscribe to the issue, but that it expected to attract interest from new investors, both in Brazil and overseas. Acesita planned to raise the entire \$850m required to complete the deal by the end of this year.

which produces 600,000 tonnes of speciality steels a year, would have significant shareholdings in companies producing a total of 12m tonnes of steel a year.

Ms Isabela Saboya, a steel industry analyst at Rio de Janeiro investment bank Icatu, said the price being paid was fair and that investors should welcome the deal as it brought a significant, stable shareholder to CST, Cosipa and Usiminas. "But for Acesita it doesn't seem to make very much sense," she said.

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NEWS DIGEST

MCI records 21% first-quarter rise

MCI, the second-largest US long-distance phone company, increased its earnings by 21 per cent in the first quarter to \$265m, with strong growth in the basic phone business partly offset by increased losses in new ventures.

Earnings in long-distance telephony were up 42 per cent at \$378m on revenues 14 per cent ahead at \$4.1bn. There was strong growth in the business market, while consumer sales were driven by special deals marketed under the Friends and Family and other brand names.

In new ventures and developing markets, revenues jumped from \$24m to \$470m, due to the acquisition of SEI, Systemhouse and National Cellular. The net loss was \$83m compared with \$62m, and cash flow was \$200m.

Group revenues rose 26 per cent to \$4.5bn, with traffic up 21 per cent. Earnings per share were ahead 17 per cent at 42 cents. MCI's shares rose \$4 to \$29 1/4 in early trading.

Tony Jackson, New York

Baxter International ahead 9%

Baxter International, the US healthcare company, said yesterday first-quarter profits rose 9 per cent, led by gains on the biotechnology and cardiovascular businesses. Net income was up to \$188m from \$165m in the same period last year. However, while profits in the biotechnology and medical products areas rose to \$188m from \$93m, earnings from discontinued operations that include the cost management area and other divested assets fell to \$20m from \$47m. The company plans to spin off its cost management business to shareholders later this year. Overall, sales rose 12 per cent to \$1.3bn.

Earnings per share rose 12 per cent to 68 cents from 51 cents last year. The increase in per share earnings surpassed overall earnings growth because of a stock buy-back programme in which the company purchased \$60m worth of its shares in the first quarter. Earnings were in line with analysts' expectations, and in early trading the shares rose 3% to \$44 1/4.

Lisa Brunsten, New York

Weak prices balk Cyprus Amax

Weaker mineral prices and bad weather in the US were blamed for a heavy fall in first-quarter net profits at Cyprus Amax Minerals, one of the world's largest coal and copper mining groups. The company unveiled earnings of \$62m, or 62 cents a share, compared with 1995 first-quarter figures of \$97m, or \$1 a share.

Mr Eilion Ward, chairman, blamed the slide on lower prices for copper, molybdenum and coal. Operations at some of the group's US coal mines had also been hit by severe winter weather, he said. These factors had been partially offset by lower costs in copper production - down 5 cents a pound to 77 cents for the reporting period - and improved sales of produced copper, at 172m lbs compared with 160m lbs last time.

The profit was struck on sales of \$894m compared with \$807m for the corresponding period last time. The quarterly dividend is maintained at 20 cents per ordinary and \$1 per preferred share.

Mark Mulligan

Videotron targets CFCF

Videotron, eastern Canada's biggest cable-TV group, is offering C\$2.50 a share cash for all the shares of CFCF, a competitor in the Montreal area, for a potential total value of about C\$365m (US\$265m), topping a competing cash-and-stock bid from a rival broadcasting group.

The Pouliot family, which controls CFCF, has agreed to tender to Videotron. The deal would rationalise Montreal cable TV, broadcasting and production, but some analysts said Videotron may meet regulatory problems.

Videotron is believed to be near completing the sale of its British cable TV and telecommunications unit for an estimated C\$500m.

Robert Gibbens, Montreal

Sale lifts MacMillan Bloedel

A C\$32m (US\$23.5m) gain on the sale of 8m shares of KNP BT, the Dutch paper group, bolstered MacMillan Bloedel's first-quarter earnings. Final net profit was C\$64m, or 48 cents a share, against C\$65m, or 49 cents, on revenue of C\$1.7bn against C\$1.24bn. At the operating level, profit was lower because of weak building materials and packaging markets, partly offset by firm paper prices. The Japanese construction timber market began to firm in March.

Robert Gibbens

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For further information about German Pfandbriefe please contact The Association of German Mortgage Banks (VDH) in Bonn, Fax (228) 9 59 02 44.

The German Pfandbrief

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GCE

Notice of the Annual General Meeting of Shareholders of GCE Group, City Finance N.V., to be held on Friday, 10 May 1996 at 11 a'clock a.m. at Hotel de Ville, Avenue Desseins 23, Amsterdam

Holders of bearer shares as well as shareholders having the right to vote, who wish to attend the meeting, are required to deposit their proof of ownership at INK Bank N.V., Herengracht 580, 1017 CV Amsterdam, or at Willemslaan 11, 1012 CP Amsterdam, or at the office of the Company, Johannes Vermeulenlaan 1, 1071 DV Amsterdam, not later than 3 May 1996.

Shareholders who wish to be represented by proxy at the meeting are required to deposit a written power of attorney at the office of the Company or with the banks mentioned above, not later than 7 May 1996. Proxy forms can be obtained from the Company.

The agenda for the meeting and copies of the 1995 annual accounts and the 1995 annual report can be obtained free of charge as of today by shareholders and others entitled to attend the meeting at the office of the Company or at the banks mentioned above.

Amsterdam, 24 April 1996

The Board of Directors

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ABB International Finance N.V.

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For the Interest Period 22nd April, 1996 to 22nd July, 1996 Notes will carry a Rate of Interest of 4 1/2 per cent per annum. The Coupon Amount per Can. \$1,000 Note will be Can. \$14.96 and per Can. \$10,000 Note will be Can. \$149.59 payable on 22nd July 1996.

Bankers' Trust Company, London Agent Bank

U.S. \$100,000,000

HSBC AMERICAS, INC. (formerly Marine Midland Bank, Inc.)

Fixed Rate Subordinated Capital Notes due 1999

For the three months 25th April, 1996 to 25th July, 1996 the Notes will carry an Interest Rate of 5 1/2 per cent per annum with a Coupon amount of U.S. \$43.75 per U.S. \$100,000. Interest payment due 25th July, 1996.

HSBC Investment Banking Limited (Incorporated in the Cayman Islands)

Notice

ADELAIDE BANK LIMITED USD 250,000,000

MULTIPLE OPTION FACILITY AGREEMENT

Dated March 26, 1994

In accordance with the provisions of the Transferable Loan Certificate issued on April 21, 1994, notice is hereby given that for the three month interest period from April 21, 1996 to July 24, 1996, the Certificate will carry an Interest Rate of 6 1/2% per annum.

Bankers' Trust Company, London Agent Bank

سكوا من الأصل

551 من الاجل

COMPANIES AND FINANCE: THE AMERICAS

Compaq bucks trend with surge in sales

By Louise Kehoe in San Francisco

Compaq Computer charged ahead of competitors in the personal computer industry in the first quarter, gaining market share with a 42 per cent jump in sales.

The results were well above Wall Street estimates of about 81 cents a share and Compaq's shares jumped sharply from Tuesday's close of \$43 to trade as high as \$50, retreating to \$47 in mid session.

segment in the first quarter. Since December 1995, Compaq has gained 5 market share points in the North American dealer channel, to achieve a dominant 34 per cent market share, according to Andis and Surveys, a market research firm.

quarter, when consumer sales are generally less robust, and to rebound in the second half when we introduce a broad range of new products," said Mr White.



Eckhard Pfeiffer, confident of ability to boost market share

USAir cuts loss despite setbacks

By Richard Tomkins in New York

Bad winter weather on the US east coast hit first-quarter results at USAir, the troubled US carrier in which British Airways holds a 24.6 per cent stake.

USAir said it suffered two adverse factors in the first quarter: delays and cancellations resulting from the poor conditions, and a loss of business owing to government shutdowns caused by the budget impasse in Congress.

Together, the company said, these factors cost an estimated \$55m - roughly equivalent to its first-quarter losses.

On the plus side, revenues climbed 6 per cent to \$1.9bn as fares rose across the industry, and load factors increased.

However Mr Stephen Wolf, the new chairman and chief executive, said he was "disappointed" with the net losses in a quarter when the industry was reporting higher earnings.

NEWS DIGEST

Netscape tops Wall Street estimates

Shares in Netscape Communications, the fast-growing US Internet software provider, rose 6 per cent yesterday after it reported higher than expected earnings for the first quarter.

Net income for the quarter was \$4.7m, or 6 cents a share, on revenues of \$55m. Analysts had been expecting earnings per share of 4 cents. In the same period a year ago, when Netscape was launching its first products, the company recorded a net loss of \$3.8m, or 6 cents a share, on revenues of \$5.4m.

A more useful comparison, Netscape said, was with the results from the fourth quarter of 1995, when the company reported net income of \$2.4m, or 3 cents a share, on revenues of \$40.8m. Results for all periods were adjusted for Netscape's acquisition of Collabra Software, last year, as well as for a two-for-one stock split in January. The shares were trading at \$66 1/4 at lunchtime yesterday, up \$5.

Louise Kehoe, San Francisco

Rite Aid withdraws Revco offer

Anti-trust objections by the US Federal Trade Commission yesterday prompted the collapse of a merger between two US drugstore chains, when Rite Aid withdrew its agreed \$1.5bn takeover bid for Revco. The merger would have created the biggest drugstore chain in the US, with about 4,500 stores.

Rite Aid said: "It is apparent to us that the Federal Trade Commission has never been interested in reviewing the facts surrounding our intended merger with Revco in an impartial manner. Despite the facts presented that this merger would be pro-consumer, the FTC kept changing the rules of the negotiation."

The deal would have been the latest in a string of mergers prompted in part by a drive among drug retailers to increase their buying power with the big US pharmaceutical companies.

Last week, however, the FTC said it would file a suit to block Rite Aid's bid for Revco, saying the combined company would dominate the pharmacy business in 16 states and could raise prices to consumers. Rite Aid tried to head off the FTC's objections by offering to sell 340 stores, but this week the FTC said it still planned to press ahead with its suit.

Richard Tomkins, New York

Chemicals weakness depresses Du Pont

By Tony Jackson

Du Pont, the US chemicals group, reported an 8 per cent fall in first quarter earnings to \$973m, with a cyclical drop in chemicals partly offset by growth in oil, coal and pharmaceuticals.

Earnings per share, boosted by last year's \$9bn share buy-back, were up 12 per cent at \$1.57.

Total sales of chemicals and speciality products were down 2 per cent at \$6.1bn, with volume down 5 per cent and prices up 3 per cent.

Earnings in the chemicals division were down 13 per cent at \$143m, in fibres down 11 per cent at \$179m, and in polymers down 15 per cent at \$198m.

Mr Jack Krol, chief executive, said he believed the weakness in chemicals in the past three quarters had been a blip in a continuing upward trend. "I hope we've bottomed out in the US, and also in Europe", he said.

East Asia was returning to rapid growth, and Latin America had enjoyed a very strong first quarter.

Cocoon, Du Pont's oil subsidiary, increased its earnings 21 per cent to \$214m on sales up 9 per cent at \$4.7bn. Upstream earnings rose 18 per cent to \$191m, while downstream earnings, helped by higher refining margins, rose 53 per cent to \$23m.

Mr Krol, who took over as chief executive at the start of this year, said Du Pont aimed at future revenue growth of between 6 per cent and 8 per cent a year, while earnings, helped by higher productivity, should rise 10 per cent.

Over the next five years, he expected annual growth in chemicals of 20 per cent in the Asia-Pacific region and 15 per cent in South America. "In Europe, which is a mature economy, we should continue at around 10 per cent," he said.

In the US, which still accounts for more than half of Du Pont's chemicals sales, growth was running at only 2 per cent to 3 per cent. "We've already got high market share, so that's not an avenue," Mr Krol said.

"We have two levers [for growth] - getting more products out of our R&D, and exporting more."

Lucent deficit at low end of forecasts

By Tony Jackson in New York

Lucent Technologies, the telephone equipment company spun off from AT&T this month in Wall Street's biggest public offering, incurred a net loss in its debut first quarter of \$103m, or \$0.16 per share. This was at the low end of the \$100m-\$140m loss forecast by the company.

Lucent said the deficit was partly seasonal. Last year it made 85 per cent of its profit in the final quarter, with a loss of \$22m in the first quarter. About half the \$31m extra loss this time came from the costs of launching the new company.

Group revenues rose 10 per cent to \$4.6bn, with a strong performance in network sales and microelectronics offset by flat sales of business systems and a sharp drop in consumer products. There was a group operating loss before interest charges of \$100m, compared with a \$23m profit in the comparable period.

Sales of network systems to other telephone companies rose 17 per cent to \$2.4bn, with domestic sales up 12 per cent and international sales ahead 34 per cent.

Lucent said there had been a marked change in attitude among US local phone compa-

nies, the so-called "Baby Bells", after the demerger.

A central reason for the demerger was reluctance by the Baby Bells to be supplied with equipment by AT&T, which is a direct competitor under the newly liberalised US phone regime. Lucent said: "Our customers here, without exception, have responded favourably [to the demerger]. They are now inviting our sales teams to work with them on some key initiatives."

Sales of phone systems to business customers rose only 2 per cent to \$1.1bn. US revenues were up slightly, while international sales grew 7 per cent, led

by Europe, east Asia and Africa.

Sales of microelectronics, consisting of integrated circuits and other components, were up 26 per cent at \$520m. This was driven by growth in application-specific chips, or ASICs. International sales rose 49 per cent, led by the Asia-Pacific region.

Sales of consumer products, such as answering machines, were down 17 per cent at \$236m. During the quarter the company closed 338 retail outlets, and now sells wholly through retail chains such as Walmart. It is concentrating on mobile phones.

Lockheed Martin ahead 10% despite decline in sales

By Christopher Parkes in Los Angeles

Earnings at Lockheed Martin, which claims to be the biggest defence and aeronautics group in the US, rose 10 per cent to \$272m before extraordinary items in the first quarter, despite a dip in sales.

Net income for 1995 of \$137m included a pre-tax charge of \$165m associated with the previous acquisition of Martin Marietta, one of the earlier moves in the continuing consolidation of the US defence industry.

Lockheed, maker of the F-16 fighter, also booked \$7bn in new orders in the first quarter, boosting its manufacturing backlog to \$42.6bn, according to statements issued yesterday.

The company, which is in the process of completing the acquisition of Loral's defence electronics and systems integration operations, said the decline of 9.5 per cent in revenues, to \$5bn, in the quarter was largely a result of the timing of aircraft deliveries and commercial space launches.

The group, which closed its \$9bn tender offer for the Loral interests on Tuesday, said annualised sales would rise to \$30bn on completion, and the acquisition would increase its order book to \$47bn.

The deal gave Lockheed "an excellent strategic balance" with leadership positions in all the main sectors in which it was represented, claimed Mr Norman Augustine, president and chief execu-

tive. It would generate a further \$1.5bn or \$2bn of cash flow annually which would be used primarily to reduce debt, the company said.

A task force had been set up to examine and carry out disposal of non-core operations, businesses where Lockheed was not among industry leaders, and real estate. The proceeds would again be used mainly to accelerate debt retirement.

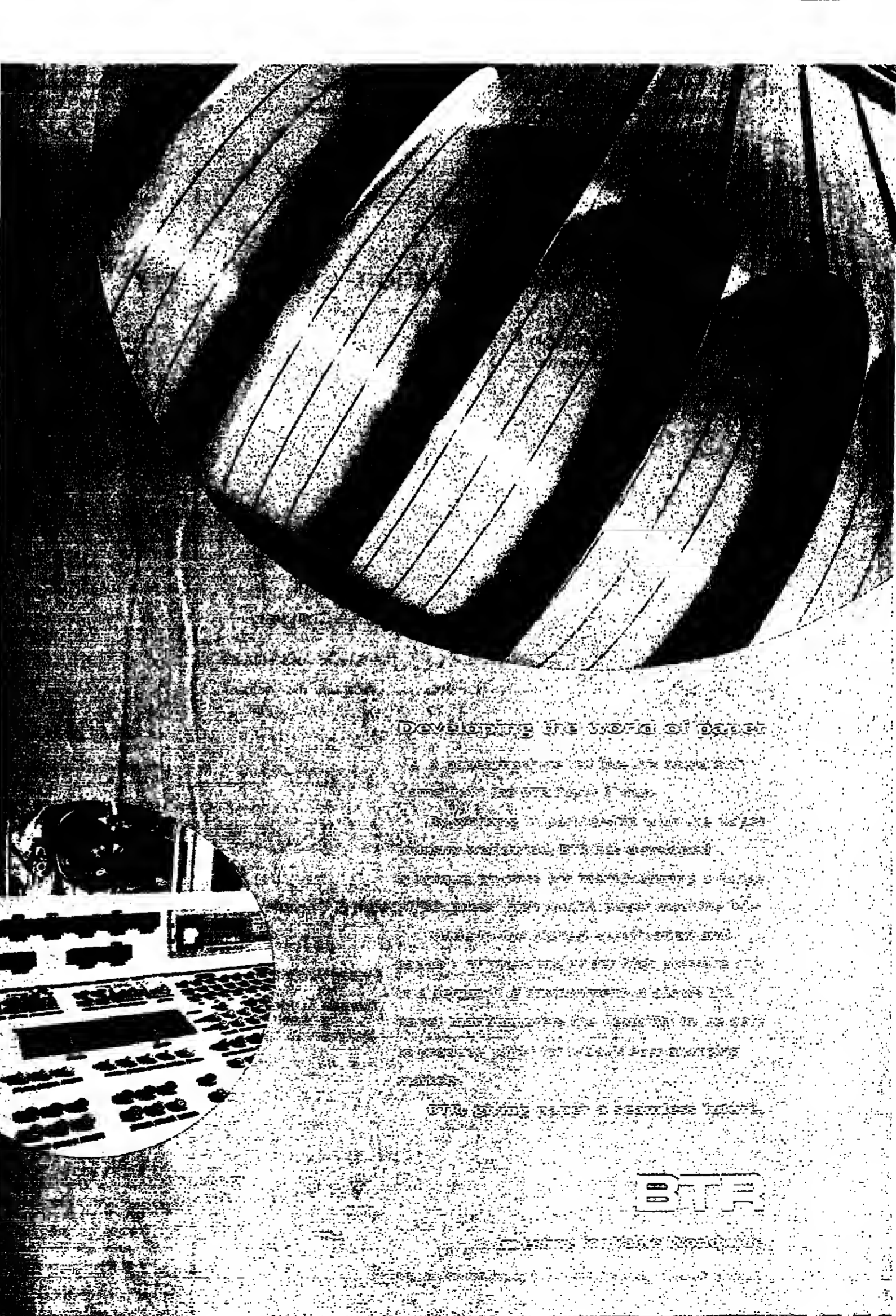
Executives warned there would be early cuts in the expanded payroll of more than 190,000, although employment would rise in the longer term.

To prevent disruption of ongoing businesses until the Loral divisions had been assimilated, they would remain a separate Lockheed unit, named Tactical Systems and complementing existing divisions in aeronautics, electronics, energy and environment, information and technology and space and strategic missiles.

Lockheed said it had also paid \$34m in January for a 20 per cent "passive" stake in Loral Space & Communications, which was spun off by Loral shortly before the tender offer was opened.

The recent restructuring of the US defence industry has sparked controversy as competition has sharpened.

Responding to threats that McDonnell Douglas might boycott certain products from the Lockheed-Loral alliance, Mr Augustine said "blacklists" were against the interests of the industry as a whole.



SIEMENS

Berlin and Munich (Securities Code 723 600)

Notice on the Redenomination of the Share Capital and on the Adjustment of the Stock Exchange Quotation

The Ordinary General Meeting of our company on February 22, 1996 resolved, inter alia, to redenominate the entire share capital, previously denominated in shares of par value DM 50 each, into shares of par value DM 5 each.

As a consequence of the redenomination of the share capital the stock exchange quotation of the ordinary shares will have to be adjusted. The official quotation of the ordinary shares of Siemens AG (securities code 723 600) will be adjusted effective May 2, 1996 from the present unit of DM 50 = 1 share to the new unit DM 5 = 1 share. Continuous trading in Siemens shares will take place as from that date in lots of 100 shares at DM 5.

Parallel to this, depository banks will convert safe custody holdings of shares of Siemens AG as at the evening of the last trading day of the stock exchange before May 2, 1996 at 10 for 1, i.e. one share of DM 50 will become 10 shares of DM 5 each. There will be no change in a shareholder's respective participation in the share capital of Siemens AG. The conversion of the safe custody accounts is free of charge for shareholders.

Warrants from the 8% U.S. dollar bonds with warrants of 1992/2002 of Siemens Capital Corporation, Wilmington, U.S.A., are not affected by the adjustment of the share quotation, as the total nominal amount of Siemens shares for which the respective unchanged option price has to be paid will remain constant. From May 2, 1996, therefore, ten Siemens ordinary shares of par value DM 5 each will be issued in place of one Siemens ordinary share of par value DM 50 upon exercise of the option right and payment of the option price, or a corresponding multiple thereof if the warrants issued entitle holders to buy more than one share.

Former shareholders of Siemens Nidord Informationssysteme AG (SNI) who have not yet submitted their SNI shares for payment of the compensation - due pursuant to the integration of SNI into Siemens AG in 1992 - will receive as compensation for six SNI shares of par value DM 50 each ten Siemens ordinary shares of par value DM 5 each instead of one Siemens ordinary share of par value DM 50.

The printing of new share certificates has been initiated. As soon as the new certificates are available - probably not before August 1996 - shareholders will be requested in a separate notice to exchange their old and no longer correct share certificates. Until that time, the present share certificates will remain good delivery at the stock exchanges. The delivery of individual certificates for shares of par value DM 5 will not be possible until the new certificates are available. Stock exchange transactions for between one and nine shares can, therefore, be fulfilled only by credits and debits to security deposit accounts.

Berlin/Munich, April 1996 Siemens Aktiengesellschaft

1996 records 21st first-quarter rise

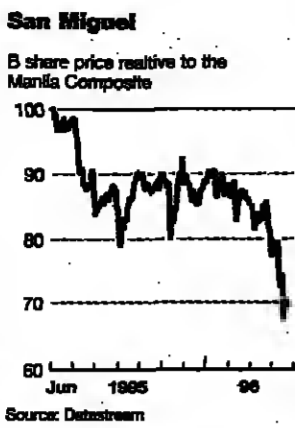
Laurion

COMPANIES AND FINANCE: ASIA-PACIFIC

Debt costs and sales slide hit San Miguel

By Edward Luce in Manila

Soaring debt costs and falling beer sales led to a 35 per cent fall in net profits for San Miguel, the Philippines' largest beer and consumer goods company, to 725m pesos (\$27.7m) in the first quarter of 1996.



In the domestic market, where it has an 85 per cent share of total beer sales, the company, which was projecting a healthy growth in local beer consumption, saw beer sales decline by 4 per cent between January and March.

beer market in the wake of a heated corporate battle between San Miguel and Asia Brewery, its main rival. Asia Brewery, owned by Mr Lucio Tan, a Chinese-Filipino businessman, is alleged to have underpriced its brands by switching its costs to 'ghost' subsidiaries so that it could pay lower ad valorem taxes.



Andres Soriano III: called for level playing field in beer market

Merged Japanese bank boosts estimates

By Gerard Baker in Tokyo

Bank of Tokyo-Mitsubishi, the world's largest bank, said yesterday it had increased profit estimates for the two separate pre-merger companies for the year to the end of March.

The bank was formed on April 1 by a merger between Mitsubishi Bank and Bank of Tokyo, whose last full business results as independent companies will be published in full next month.

Sony to close home audio factory in Japan

By Michio Nakamoto in Tokyo

The pressures facing Japan's consumer electronics companies were highlighted yesterday by Sony's decision to close one of two domestic factories where it manufactures home audio equipment, in an attempt to raise profits at its audio business in Japan.

move to a facility in nearby Ibaraki prefecture, where the company will consolidate its home audio equipment output. Such a move is a rare in Japan, where blue-chip companies such as Sony have tried to meet the pressures of a high yen and sluggish domestic market by shifting production overseas while minimising impact on domestic production.

However, manufacturers of audio equipment have been particularly hard hit by severe price declines and a sagging domestic market. In an attempt to deal with the situation, Japanese makers have shifted production rapidly overseas to lower-cost bases, mainly in south-east Asia.

two facilities. Furthermore, the Gunma factory generates two-thirds of its sales from exports. The two facilities which make home audio equipment in Japan together saw profits decline from a peak of ¥100bn in 1991 to ¥38bn last year.

While Sony has enjoyed strong demand for its portable MiniDiscs, it indicated that the home audio market in Japan was mainly a replacement market and not strong enough to support continued output from

NEWS DIGEST

Ranbaxy disappoints despite 22% rise

Strong export growth pushed net profits at Ranbaxy Laboratories, India's second biggest pharmaceutical company, up 22 per cent for the year ending March 31 to Rs1,334m (\$38.5m) on a 23 per cent rise in sales to Rs5,704m.

Cement sales lift Birla Jute

Birla Jute & Industries, one of India's larger cement and jute groups, lifted earnings 83 per cent to Rs40m (\$12.9m) in the year ended March 31. The increase was attributed to strong growth in cement sales. Pre-tax profits were up 119 per cent to Rs60m but provisions for tax rose from Rs25m for 1994-95 to Rs24.5m.

Chinese securities houses merge

China's largest securities trading house has been formed from the merger of Shanghai Shenyin Securities and Shanghai International Securities. The institution will be known as Shanghai Shenyin International Securities Co and will be expected to compete with international brokerages which are establishing a firmer foothold in China.

Phillex plans goldmining spin-off

Phillex Mining, the Philippines' largest domestic mining company, is to spin off its gold operations into a separate company and list them abroad in an initial public offering later this year. Mr Jerry Brimo, chairman of Phillex, said yesterday that the operation would be the first time a Philippine mining company had been exclusively listed abroad.

Philippines tyre maker to sell up

Tyre maker Sime Darby Filipinas, which has long been beset by labour problems, said yesterday it would sell its assets to rival company Goodyear Philippines. No financial details were revealed.

BankWest upbeat on hitting target

By Nikki Tait in Sydney

BankWest, the Perth-based regional bank which is controlled by Bank of Scotland, yesterday announced net profits of A\$51.2m (US\$40.5m) in the five months to the end of February.

BankWest is in a strong position and I have no reason to believe the profits forecasts for the current financial year will not be achieved," said Mr Ian Mackenzie, the group's chairman.

received during the public offer for sale of its shares, while an extraordinary gain of A\$13.9m came from the sale of the bank's land development activities.

The charge for doubtful debts, at A\$11m, was in line with the prospectus prediction. The bank said growth had been stronger than anticipated in BankWest's three main areas of activity - housing, personal lending and business loans.

Indonesian private banks advance

By Mervela Saragosa in Jakarta

Bank Niaga and Bank Tiara, two private Indonesian banks, reported net profit in 1995 increased by 83 per cent and 75 per cent, respectively, on the year before, reflecting growth in loan portfolios of about 30 per cent in each case.

set limits on banks' credit growth. The action is part of a strategy by Bank Indonesia to control the liquidity and quality of the banking industry after a series of bad debt scandals in recent years.

open branches; most large private retail banks in Indonesia depend heavily on new branch openings to raise their party funds to finance their loan expansions. For example, Bank Danamon and Bank Central Asia, two of Indonesia's largest private sector banks, open between 20 and 40 branches annually.

Advertisement for CompuServe Corporation offering 18,400,000 shares. Lists various financial institutions like Goldman Sachs International, Merrill Lynch International, and others.

Advertisement for Overseas Union Bank Limited offering US\$100,000,000 Subordinated Floating Rate Notes due 2011.

Advertisement for Sahian Merchant Banking Corporation offering US\$100,000,000 Floating rate notes 2000.

Advertisement for Sunkyong Industries Limited offering US\$50,000,000 Floating Rate Notes due 1998, and The Republic of Argentina New Money Bond due 1999.

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All of these Securities have been sold. This announcement appears as a matter of record only.



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COMPANIES AND FINANCE: UK

BankWest contributes £20m for three months

Bank of Scotland rises 21%

By George Graham,
Banking Correspondent

Bank of Scotland, the Edinburgh-based clearing bank, aims to build on its expanding presence in Australia and New Zealand to "open a gateway" to the Asia Pacific region.

Sir Bruce Pattullo, governor and group chief executive, said the £236m acquisition of a 51 per cent stake in Bank of Western Australia, coupled with existing operations in Australia and Countrywide Bank in New Zealand, left the group with 19 per cent of its assets in the region.

BankWest, though included only for three months, contributed £19.7m to Bank of Scotland's pre-tax profits of £545m in the year to February 29, a rise of 21 per cent.

"The fact that the focus ended up in Australia and New Zealand is a mixture of opportunism and strategy," Sir Bruce said, acknowledging that Bank of Scotland had in the 1980s considered acquisitions in the US.

It also tried to negotiate a merger of Countrywide and Trust Bank of New Zealand, but lost out to Westpac of Australia, which won the auction this month with an offer worth

NZ\$1.27bn.

"We don't get into hostile situations and we'll never put top dollar on the table," he said.

The expanded international operations have prompted Sir Bruce, who has since 1991 combined the roles of governor and group chief executive, to hand over the second role to Mr Peter Burt, chief general manager of the parent clearing bank.

"We need a little bit more flexibility on who does what," Sir Bruce said.

Profits were boosted by £50.6m of non-recurring gains, including profits on the sale of stakes in Halifax Credit Card

and Dumedin Fund Managers, but the group called the rise in operating and pre-tax profits "excellent".

Earnings per share rose 16 per cent to 25.8p, and the board proposed an 18 per cent increase in the dividend to 6.85p.

Anxiety over a sharp rise in its cost/income ratio knocked the bank's shares yesterday. They fell 8p to 251p.

Administrative expenses rose 19 per cent to £713.1m, as the bank invested heavily in computer systems, branch refurbishment and an expansion of NWS Bank, its finance house subsidiary.



Sir Bruce Pattullo: seeking a gateway to Asia Pacific region through Australia and New Zealand

Wienerberger fades from Redland bricks sale

By Andrew Taylor in London
and Eric Frey in Vienna

Wienerberger, the Austrian building materials group, yesterday appeared to have ruled itself out as a purchaser of Redland's UK brick interests after announcing a large Belgian acquisition.

The merger of Koramic's Belgian-based brick interests with Wienerberger will create one of the world's largest brick manufacturing businesses.

Wienerberger said last night it was still bidding for Redland's UK brick interests, but thought it was unlikely to succeed.

Redland had previously sold its 33 per cent stake in Terca, its Belgium-based brick interests, to Koramic, its joint venture partner, for £71m.

Koramic has now sold its brick interests, which include plants in Belgium, the Netherlands, France and Germany, for a 20 per cent interest in the Austrian group, which has a market capitalisation of about £214.9bn. The stake is raised to 25.1 per cent through a separate deal with Creditanstalt-Bankverein, Wienerberger's largest shareholder.

Boral sells UK plant for £24m

By Andrew Taylor in London and
Nikki Taft in Sydney

ARC, Hanson's building materials subsidiary, has become Britain's biggest manufacturer of concrete blocks with the £24m purchase of Boral Edenhall from Boral, the Australian building materials and energy group. The business, based in Penrith in Cumbria, operates seven concrete block plants, four concrete brick plants and a sand and gravel quarry.

The purchase makes ARC market leader with about 17 per cent of the total block market and 24 per cent of dense concrete block sales.

The market for concrete blocks has been difficult over the past 12 months but is expected to pick up following a revival in new house sales in the first four months of this year and an increase in commercial development.

Boral said that its UK subsidiary unit, was a standalone operation and separate from its core European activities of clay bricks and tiles. Earlier this year it announced the sale of other quarry, sand and gravel interests in Germany, although the deal is still waiting approval from the German anti-trust authorities. And it intends selling Calcit, its remaining quarry in Germany.

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year		
Bank of Scotland	Yr to Feb 29	545	(448.7)	25.8	(22.3)	4.4	June 21	3.89	6.85	5.82
BankWest	Yr to Jan 27	86	(84.4)	1.26	(2.57)	1.74	June 10	1.55	2.22	2.16
Dunfermline	Yr to Dec 31	33.8	(26.1)	3.11	(2.12)	10.1	July 1	4.1	3.7	3.7
Essex Furniture	18 mths to Dec 31	44.3	(17.7)	1.19	(1.41)	8.46	June 24	2.1	2.5	4.3
Medical Bar	Yr to Jan 31	65.9	(50.5)	9.2	(8.19)	29.8	July 3	2	3.75	6.5
J&S Sports	Yr to Jan 31	89.6	(61.3)	12.9	(7.58)	27.74	July 3	2	8.75	3.22
Frederick North End	6 mths to Dec 31	1.29	(0.92)	0.42	(0.217)	-	-	-	-	-
REA	Yr to Dec 31	100.2	(88.7)	1.59	(1.41)	5.1	Oct 4	4	4	4
RSU	Yr to Jan 31	84.7	(61.8)	7.02	(6.05)	37.8	July 1	9.5	16	12.5
Investment Trusts	NAV (p)	Attributable earnings (p)	EPS (p)	Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year		
Investors Capital	6 mths to Mar 31	160.8	(152.84)	8.91	(7.21)	2.8	June 10	1.325	-	5.3
Shires Smaller	3 mths to Mar 31	170.6	(154.944)	0.194	(0.191)	1	June 28	1.325	-	5.7

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. †After exceptional charge. ‡After exceptional credit. †On increased capital. ‡US\$1 stock. †4m stock. ‡41 September 30. †Second interim; makes 2.7p to date. ‡44 December 31.

FINANCIAL NEWS
FROM BANK OF SCOTLANDBank of Scotland
Annual Results

	1996	1995
TOTAL PROFIT FROM GROUP OPERATIONS BEFORE PROVISIONS	£706.4m	£650.0m
PROFIT BEFORE TAXATION	£545.0m	£449.7m
TOTAL CAPITAL RESOURCES	£3,533m	£2,731m
TOTAL ASSETS	£44,099m	£34,104m
EARNINGS PER ORDINARY STOCK UNIT	25.8p	22.3p
DIVIDEND PER ORDINARY STOCK UNIT	6.85p	5.82p

- Total profit from Group operations before provisions a record £706.4 million
- Profit before taxation up 21 per cent on 1995
- Dividend increased by 17.7 per cent
- Cost : Income ratio 52.1 per cent

BANK OF SCOTLAND
A FRIEND FOR LIFE

For a copy of the Bank's Annual Report contact the Marketing Services and Public Relations Department, Bank of Scotland, Ueberior House, PO Box 12, 61 Grassmarket, Edinburgh EH1 2JF.

DIGEST

Amersham raises stake in Nihon

Amersham International, the health sciences group, is to increase its stake in Nihon Medi-Physics, its radiopharmaceutical joint venture with Sumitomo Chemical, Japan's largest chemical producer, Amersham, which bought 30 per cent of NMP in December 1994 for ¥8.52bn is raising its holding to 50 per cent in exchange for ¥8.28bn cash and the transfer of its Japanese healthcare business to NMP.

Following the transaction, Amersham will have about 30 per cent of the world nuclear medicine market, nearly double that of its nearest competitor and will command more than 80 per cent of the Japanese market.

When Amersham bought its initial NMP stake it was granted the option to buy a further 30 per cent within two to five years, but it was not eligible to raise its holding until December of this year. However, Mr Bill Castell, chief executive, said the group would complete the deal in October. "We are moving to 50 per cent a couple months earlier than was in the option because we came to financial agreements on the valuation of the two businesses," he said. *Motoko Rich*

BET and Rentokil trade insults

BET and Rentokil yesterday traded insults in a last-ditch attempt to sway shareholders before the £2.1bn (£3.17bn) takeover battle closes on Friday.

BET, the target company, claimed that Rentokil, the rival business services group, could have a "dreadful" balance sheet if the bid were to go through, with a negative net worth of £229m and net debts of over £776m.

Rentokil hit back saying that BET had provided no details about its plans for the cleaning, catering and personnel businesses which accounted for one-third of the group's turnover and half its staff. *Geoff Dyer*

Framlington's emerging push

Framlington, the UK fund management company owned by CCF of France, is continuing its push into emerging markets with a new mandate from the European Bank for Reconstruction and Development. The EBRD, the international financial institution designed to promote the private sector in eastern Europe, has chosen it to manage a £33m (£50m) fund to invest in Slovakian privatisations.

C&W man for Littlewoods

Mr James Ross, the former chief executive of Cable and Wireless, has been nominated as chairman of Littlewoods, the family-owned retailer, mail order and football pools group. Mr Ross, 57, and Lord Young, C&W's chairman, left the telecommunications company last November after a personality clash and power struggle between the two derailed the company. *Roderick Oram*

LEX COMMENT

Bank of Scotland

The market's punishment of Bank of Scotland for an uncharacteristic departure from its cheese-paring ways looks like a mistake. Its share price fell yesterday, when the group reported a rise in its cost to income ratio of just over two percentage points to 52 per cent last year. True, other banks are cutting costs and returning money to shareholders through share buy-backs or rapidly increasing dividends. But Bank of Scotland's cost ratio is still considerably lower than most, and its pre-tax return on equity of more

Bank of Scotland

Share price relative to FT-SE-100 Retail Banks index

160

140

120

100

80

1986 88 90 92 94 96

Source: Datastream

than 36 per cent should give investors some confidence that management is using capital wisely. And though the rise in costs is partly due to investment in computers and branch refurbishment, which will provide little obvious boost to income, the bank has at least a clear idea of how to grow its business. It is also investing in the expansion of its highly successful finance house, NWS Bank.

Without share buy-backs, investors will want to see those investments translate into higher profits. Given the pace of recent asset expansion, the bank's underlying profits increase of 5 per cent is disappointing. Still, worries that the bank is not generating enough capital to support the risks it is assuming look overdone. At 6.1 per cent, its tier one capital ratio is lower than most of its peers. But the type of risk matters more than the crude statistic, and the quality of the bank's lending appears solid enough. Provided it has sufficient capital to accommodate further asset growth as the economy picks up, Bank of Scotland shares, trading at the average earnings multiple for the sector, still look like an attractive alternative to the cost-cutters.

صديقا من الاميل

سكنا من الالعمل

DTI BLOCKS POWER BIDS

Ian Lang, trade and industry secretary, says electricity takeovers would be "detrimental to competition"

Recs 'left exposed to overseas raids'

By Patrick Harverson and David Wighton

The rejection of National Power's bid for Southern Electric and of PowerGen's bid for Midlands Electricity will not slam the brakes on the consolidation of the UK electricity industry.

That was the message from City analysts yesterday, who argued that Mr Ian Lang's decision to block attempts to vertically integrate a large chunk of the industry might even have the opposite effect and accelerate the process.

They believed the blocking of the two bids by the trade and industry secretary would encourage European and US utility groups to step in and buy the six independent regional electricity companies (recs). They also said that it exposes the generators to takeovers by foreign buyers.

"This leaves the entire sector far more vulnerable to overseas bids," said one analyst. "Lang says he is not in principle against vertical integration, just these vertical integrations. Any vertical integration that's not an English vertical integration seems to be acceptable."

The chief executive of one of the remaining independent recs agreed. "I don't think this changes the position of the independent recs in terms of takeovers one iota," he said. "The only difference now is there are two more in the pool."

Aside from the six independent English recs - Southern, Midlands, Northern, East Midlands, Yorkshire and London - the three integrated power companies outside England (Northern Ireland Electricity, Scottish Power and Scottish Hydro) are also vulnerable to takeovers. However, the regulator's price review of Northern Ireland Electricity, due this summer, could put off potential buyers - and Scottish Power may prove too big for all

but the largest predators to swallow.

In spite of Mr Lang's move the City still believes that the bigger overseas utility companies will soon be falling over themselves to buy an English generator or a rec. In the US, more than half-a-dozen utilities are viewed as likely candidates to establish a presence in the UK electricity market. They include Southern Company, Houston Industries, Mission Energy, Duke Power, Florida Power & Light, General Public Utilities and Pacific Gas & Electric.

The US groups operate under extremely tight regulatory regimes at home, and are under shareholder pressure to invest abroad. With access to cash and cheap financing they have the means to do it, and in the UK they see an industry in the throes of consolidation that is relatively lightly regulated, and a country where acquisitions can be made in a low-risk environment. In this context, the investment rationale of a US group buying a rec or even a generator look compelling.

In continental Europe, the case for buying into the UK is less persuasive, but several large players are believed to be keen to enter the fray.

The first move from an overseas buyer could come from Southern Company, the Atlanta-based utility which last week revealed that it wanted to open merger talks with National Power. At the time the group made it clear that it did not want National Power to acquire Southern Electric, and the initial reaction from the stock market yesterday was that Mr Lang's decision would clear the way for the US utility to make an offer for the generator.

However, Southern may want to keep its options open. Because it already owns a regional supplier in Sweb, the group knows that a bid for National Power might be referred to the Monopolies and

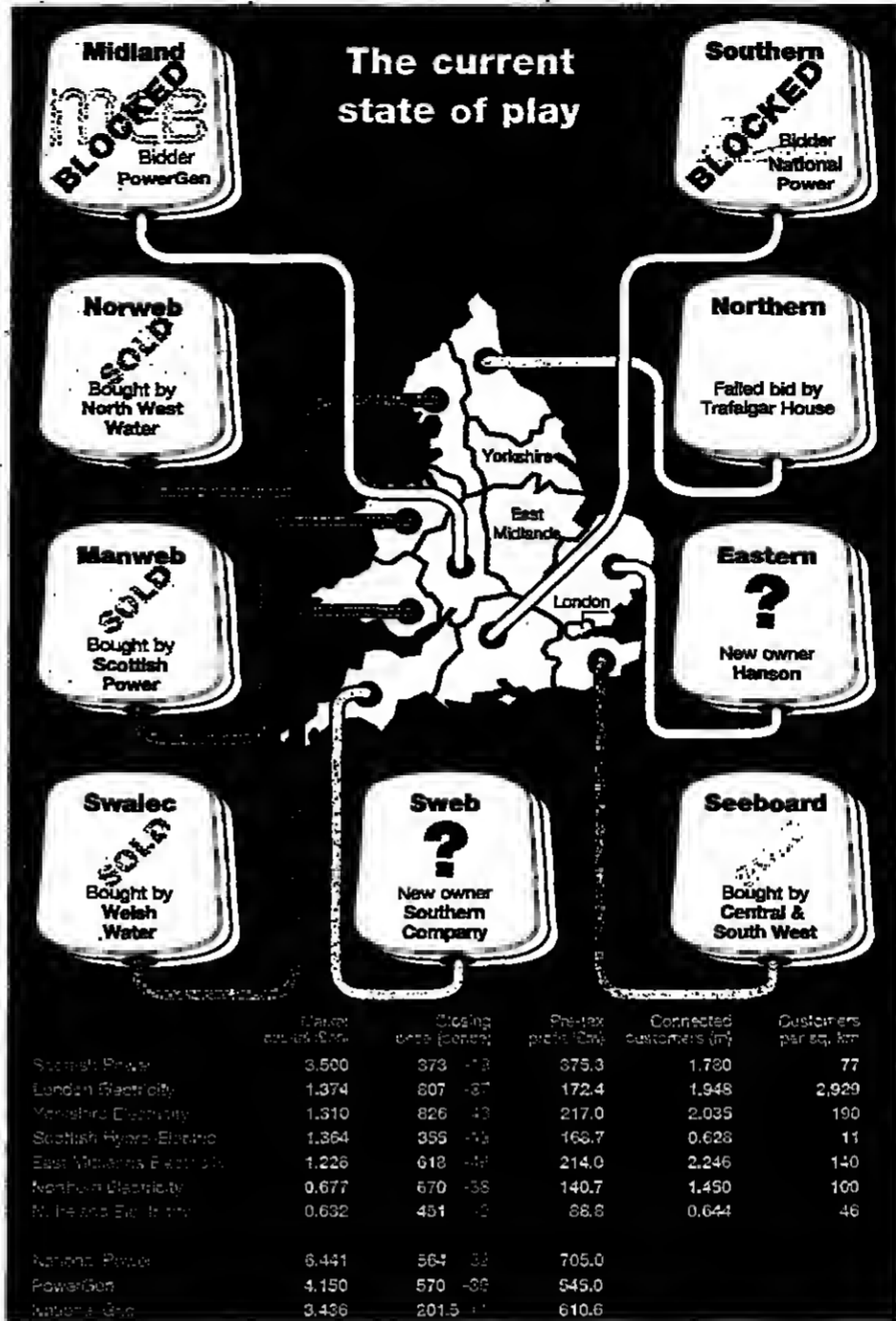
Mergers Commission on the grounds that any acquisition of a UK generator would represent the type of vertical integration rejected by Mr Lang. Instead, Southern might decide to develop generating capacity in the UK by other means, either through a deal to lease or buy some of the plants owned by existing generators, a tie-up with the integrated Scottish groups or the building of its own generating plant.

For National Power, the only certainty now is that it cannot buy a rec. Even if it is left alone by Southern of the US the generator will remain exposed to another foreign bid. Barring a foreign takeover, National Power plans to pursue its three-pronged strategy of developing a supply business through other routes such as joint ventures or contractual arrangements with recs, returning value to shareholders through a special dividend or a buyback, and expanding its international operations.

PowerGen was putting on a brave face in public yesterday. But there is no doubt that the blocking of its bid for Midlands Electricity is a serious blow. That was clearly reflected in the share price which fell 3p to 570p yesterday in spite of the belief that PowerGen will use some of its spare cash on a share buy-back. Most analysts believed it unlikely that PowerGen itself would receive a bid. If foreign takeovers fail to materialise, the outlook for the generators is not encouraging.

PowerGen and National Power are facing a significant downturn in profits in the next couple of years. Mr John Reynolds, electricity analyst at James Capel, forecasts they could suffer a drop of between 20 per cent and 50 per cent as a result of the changes in the electricity market in 1998.

One of the most intriguing aspects of Mr Lang's decision is the implications that it has for Hanson's Eastern subsidiary. Last week, Eastern



Decision will fuel call for MMC reform

By Stefan Wagstyl, Industrial Editor

It is not unprecedented for the government to reject the advice of the Monopolies and Mergers Commission, its competition policy arbiter. But it is rare for it to do so in such an important case.

The decision made by Mr Ian Lang, the trade and industry secretary, will fuel demands for the reform of competition policy, including the MMC's role. As one former competition policy official said last night: "This is a bad blow to the MMC. It shows how urgently we need to reform the structure of our competition policy."

The MMC declined to comment. But it is expected to take the view that far from demonstrating shortcomings in competition policy, the decision proves that it works. "The issues were fully debated and discussed," said an official familiar with the MMC's role. "That is what is supposed to happen."

Nevertheless, Mr Lang's announcement comes at an awkward time, because the government is in the middle of a consultation programme on competition policy, having set out its agenda for possible reforms in a green paper last month.

These proposals, which concentrate on cartels and have little to say on mergers or anti-competitive practices, have been attacked as too modest by critics, including the Consumers Association - the independent watchdog - many competition lawyers, and the Labour party.

In particular these critics believe the government is wrong to leave intact the current three-way division of responsibility for competition policy between the Office of Fair Trading, which investigates possible abuses, the

MMC, which does in-depth investigations, and the government, which has the final say.

Yesterday's decision raises three principal concerns. First, it is seen as ironic that in blocking the bids, the government has put a higher priority on competition issues than its competition watchdog. The law charges the MMC with judging issues in accordance with "the public interest" - a very broad definition. In the mid-1990s, this was narrowly defined in the so-called "Tebbit doctrine" - by the then Mr Norman Tebbit, the trade and industry secretary. He said the MMC should focus on competition issues.

But the Tebbit doctrine has been undermined by the Conservative government's wish to promote national champions - a consideration covered by the MMC in yesterday's report. Critics of the current regime say it should be for the government to consider such wider issues, not the MMC. "Perhaps we need a restatement of the Tebbit doctrine," said a competition lawyer.

Secondly, the government's critics - including the Labour party - accused ministers of inconsistency in assessing utilities mergers. They pointed out that last year's takeovers of Manweb by Scottish Hydro and the merger of Norweb with North West Water, raised similar competition issues. But the government declined to refer either to the MMC. The Consumers Association, among others, said yesterday that clearer guidelines would eliminate such inconsistencies.

Finally, there were renewed demands for reform of the MMC's structure. One competition lawyer said the MMC had too many members, no guidelines and was not bound by precedent. So it was prone to taking too broad a view of its responsibilities.

Lang makes his mark as king of competition and the consumer

By Robert Peaton, Political Editor

The president is dead; long live the president. Any suggestion that Mr Ian Lang, the trade and industry secretary - or the president of the board of trade, to accord him his full pomp and title - may be a dapper imitation of his predecessor, Mr Michael Heseltine, was yesterday utterly dispelled.

His decision to block the bids by National Power and PowerGen runs counter to the philosophy introduced to the Department of Trade and Industry by Mr Heseltine. "I have no doubt that Hezza would have allowed the bids to proceed," said a senior government member.

Mr Lang, the most urbane and punctilious cabinet member, agonised about the decision up to the last moment. "It was very finely balanced," said one of his colleagues. "For a while I was sure it would go the other way."

Mr Lang has now made his mergers and acquisitions priorities absolutely clear. "At last we have a coherent policy," said a minister. "Lang has made it clear he is in favour of competition and the consumer. Frankly, when Heseltine was doing the job, our approach was far less comprehensible."

Mr Heseltine, in his three years doing the ministerial job he loved more than any other, significantly amended the Thatcherite competition agenda of the 1980s.

He paid lip service to the notion that takeovers should not proceed if they had a deleterious effect on domestic competition - but he also championed the notion that the government should not stand in the way of the creation of giant companies, able to compete more effectively on the global stage.

The classic example of this approach was his decision in the middle of last year to allow GEC to buy VSEL, the shipbuilder - even though the Monopolies and Mergers Commission recommended that the deal should not proceed. Yesterday Mr Lang did precisely the reverse. The MMC said that the PowerGen and National Power takeovers should be allowed to go ahead, but Mr Lang over-ruled it.



Tough decision: colleagues say Ian Lang agonised about the bids

were all stressing in the run-up to the announcement that he was acting in a "quasi-judicial" capacity. He was, they said, acting on the basis of some rather nebulous case law and that politics would not enter into the matter.

But the political pressures were immense, following the leak a fortnight ago of the MMC's recommendation. Tory free-market rightwingers, led by Mr Norman Lamont, the former chancellor, were urging him to block the deals.

Yesterday, euphoric at the announcement, Mr Lamont congratulated Mr Lang. "This is excellent news for electricity users and the government's privatisation programme."

Mr Lamont, who wrote to Mr Lang earlier this week arguing against the takeovers in the strongest possible terms, may have had an influence. "Thank God for Norman's intervention," said an influential member of the government. However, other Tories had lobbied Mr Lang to back the MMC. Sir Michael Grylls, a Tory backbencher, wrote say-

ing that "if these mergers create UK energy groups, fully open to the forces of competition in their domestic market, but better able to compete worldwide, then that must be good news for UK PLC".

In the background, Labour kept its powder dry - although Mr Gordon Brown, the shadow chancellor, urged that it should strongly object to the takeovers. Had the deals gone through, it was planning to force a vote on the issue - which could well have embarrassed the government, with its slim majority.

Yesterday, Mr Lang refused to be interviewed about his decision, saying it would not be proper as he had been acting in a "judicial" capacity.

Mr Lang's written statement made it clear that he was not opposed in principle to vertical integration in the electricity industry, or distribution companies being owned by generators. However, there would be "significant detriments to competition" if the takeovers went ahead "in the current state of the market". He was supported

by views from the Office of Fair Trading, the competition watchdog, and the Office of Electricity Regulation.

A close colleague of Mr Lang yesterday said that the MMC's analysis had been "accepted", but not its conclusion. What he was referring to was the MMC's preliminary conclusion that the deals "may be expected to operate against the public interest".

However, the MMC also said that this damage to the public interest would be eliminated if certain minor conditions were imposed on PowerGen and National Power, forcing them to dispose of certain power station interests and amending licenses to facilitate regulation.

"We felt it was dangerous to go down that route," said a minister. "They are not convinced that the MMC about the health of the market."

This is not the first time that Mr Lang has shown a reluctance to embrace Mr Heseltine's agenda in full. In March, he wrote to the deputy prime minister expressing grave reservations about the latter's plans to deprive up to 8m workers in small businesses of legal protection against unfair dismissal. Earlier this year he retreated from Mr Heseltine's plans to privatise much of the administrative work in processing company insolvencies.

As a result, colleagues have noted tension entering their relationship. "They are not on the best of terms," said one.

The unanswered question is whether Mr Lang has, by blocking the takeovers, merely jumped from one political minefield to another. It may open the door to a bid for National Power from the US electricity company, the Southern Company.

However, Mr Lang is no more politically naive than his sophisticated predecessor. One of his advisers pointed out yesterday that the government controls a golden share in National Power and PowerGen, limiting any individual investor in these companies to a holding no greater than 15 per cent.

"We would not hesitate to enforce our golden share powers if there was an unwelcome bid," he said. If that prevents Southern bidding for National Power, Mr Lang can sit in his presidential suite in peace.

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TECHNOLOGY

Worth Watching · Vanessa Houlder



Chernobyl's long-term effects

Genetic mutations have occurred twice as often in children of families exposed to the radioactive fallout from the 1986 Chernobyl accident, as elsewhere. This finding, reported in today's *Nature*, may help focus attention on the long-term genetic consequences of the disaster which has its 10th anniversary tomorrow.

Although the Chernobyl disaster has been linked with thyroid cancer in children, little has been known about the long-term health effects.

Scientists at the Russian Academy of Sciences, the University of Leicester and the Research Institute for Radiation Medicine in Mogilev studied people in Belarus, a few hundred kilometres from the disaster site.

University of Leicester: tel. (0)116 252 3143; fax (0)116 252 3372.

Early warning for motorway drivers

A low-cost warning system that will inform motorway drivers of accidents, delays and visibility problems has been designed by a consortium of US electronics companies and Georgia Tech.

The transmission and messaging systems send a wide range of emergency warnings to motorists using advanced radar detectors that can be read on a liquid crystal display.

Transmitters would be placed on police and other emergency vehicles, bridges and signs.

Georgia Institute of Technology: US, tel. 404 894 3444; fax 404 894 6362.

Satellite navigation for the blind

Trials are about to begin on a satellite navigation system designed to help blind people find

their way around cities. The EU-funded system consists of a portable computer, which contains electronic ordnance survey maps of the area, a speech synthesiser and a satellite navigation system.

The computer uses information from the satellite to plot the route; spoken instructions are transmitted via a small earphone. The mobile consortium includes UK, German and Swedish universities, FH Papenmeer of Germany, BT Laboratories and the Royal National Institute for the Blind.

Royal National Institute for the Blind: UK, tel. (0)171 388 1266; fax (0)171 388 7747.

Clearer sound from lightweight speaker

A lightweight hi-fi speaker has been designed that cuts down sound distortion by creating a virtually uniform magnetic field within the speaker.

The Kenwood Electronics speaker used two powerful, neodymium magnets inside the voice coil instead of the normal ferrite magnet which is usually placed around the voice coil. The speaker system, originally designed for the McLaren F1 Road Car, weighs up to two thirds less than conventional speakers. The cost of the systems range from £74.95 to £149.95.

Kenwood Electronics: UK, tel. (0)1923 516444; fax (0)1923 212477.

Witchweed meets its poison

Scientists in Israel and Kenya have tripled corn yields on experimental plots by eradicating witchweed. This is a parasitic weed that devastates grain crops at a cost of some \$10m (£6.6m) a year in Kenya alone.

These weeds, which attach themselves to the root of the crop are difficult to deal with because by the time they emerge above the ground they have already drained the crop of nutrients.

The solution, put forward by the Weizmann Institute in Israel, was to choose a crop that is resistant to a certain type of herbicide and soak its seeds in it before planting. The parasitic weeds are killed by absorbing the weed-killer from the crop roots or soil.

Weizmann Institute of Science: Israel, tel. 97289343822; fax 9728934104.

Genes of yeast used in bread and beer hold vital clues about human illness, says Nicki Brimicombe

Using their loaf

In recent years, numerous experts and officials have said that moderate alcohol consumption is good for health. Now it appears that the yeast used to produce beer and wine may help combat human disease in other ways.

An international group of scientists has just finished identifying the protein-encoding genes belonging to yeast and found many similarities between yeast genes and their human counterparts. The breakthrough was announced at a conference in Brussels yesterday.

The yeast is the first higher (or non-bacterial) organism to be completely decoded, which means that scientists can identify the protein which each gene is responsible for making. This knowledge will not only help brewers and bread makers, but should help research into human genetic disorders, accelerate drug design and reduce animal testing in medical research.

The completed map of yeast's genetic material (or genome) is the result of a seven-year European Commission-funded project involving more than 100 European laboratories. The only other living things to have been completely decoded are bacteria, which have a very different genetic make-up from that of humans.

In yeast more than half of the 6,100 genes bear a resemblance to human genes. This means that many of the proteins made by yeast are similar to those made by man, and many of a yeast cell's responses will parallel those of a human cell.

For these reasons studying yeast will give medical researchers insights into how a new drug might affect a human cell.

"Man has about 10 times more protein encoding genes than yeast," explains André Goffeau, professor at the Université Catholique de Louvain, in Belgium, who led the study. "The homologies between yeast genes and human genes will help us understand the function of human genes. In the long term it could also reduce the number of animals used



Research into yeast offers the prospect of improved fermentation methods in beer production as well as new drug design.

in drug research, because reviewing the effect of a test compound in a yeast cell will give a good indication of what it will do in a human cell."

The research has implications for the brewing and food industry which can use the information to make fast and accurate improvements in the performance of fermentation yeast.

Several yeast genes also appear to be involved in resistance to antibiotics and by relating this information to bacteria and new drug design scientists may overcome this increasingly common problem.

The next phase of the researchers' work will facilitate research into more effective treatments for diseases such as colon cancer, cystic fibrosis, Duchenne muscular dystrophy and early onset breast and ovarian cancer.

In these diseases malfunctioning genes are known to be involved. In most instances a number of genes "gang up" and it is their concerted malfunction which makes a person more likely to develop the illness.

For most genetically related diseases, scientists have only identified one or two of the causative genes. They need to know all the genes associated with a disease to develop an effective treatment.

About 60 per cent of yeast's protein-encoding genes are responsible for making proteins of known func-

tion, but the role of the remaining decoded proteins remainder is a mystery. The same is true for the human genome: a large proportion of the genes appear to code for proteins which serve no apparent purpose and some of these genes appear to be dormant.

These mystery genes could hold vital clues to many human diseases. Under normal circumstances they may be dormant and not express the proteins for which they code.

However, they might be activated if the environmental conditions change or they may act as a back-up which takes on the work of damaged genes. Alternatively, the proteins for which they are responsible could help protect the cell from disease or death. It may be that the malfunction of these mystery or "orphan" genes causes genetically linked diseases.

The EU has just awarded one of its largest single grants of Ecu7.3m (£5.7m) over two years to support a project in which 144 laboratories in 14 European countries will study yeast's orphan genes.

"Each laboratory will be allocated six of the mystery genes and endeavour to find the role of the protein for which they code," says Stephen Oliver, professor at the University of Manchester Institute of Science and Technology (UMIST), who is scientific co-ordinator for the project.

"They will systematically remove

each gene and then grow the damaged yeast in a variety of conditions - in different nutrients, at a range of temperatures - to determine whether the yeast thrives or dies in the absence of the gene. Once the function of the mystery genes has been established, scientists can see whether similar human genes play the same role and determine whether their malfunction could cause disease."

In another project supported by the Wellcome Trust, scientists from UMIST and the Institute of Molecular Medicine at the John Radcliffe Hospital in Oxford are developing a minimalist yeast in which all the non-essential, mystery genes are stripped out, leaving a yeast equipped with only the bare genetic necessities.

Each of the remaining genes will then be systematically removed and replaced with copies of human genes, to determine what protein this gene creates and whether it enables the yeast to survive. In the next step, mutated versions of the same human genes will be inserted into yeast to see whether the mutations are supportable.

In this way the minimalist yeast will help reveal those genes - even the orphan genes - which are vital to the healthy functioning of a cell, which mutations can be supported and which are likely to cause disease or death.

On the trail of BSE

Evolutionary biology has provided some new clues to one of the mysteries concerning the degenerative brain diseases, Creutzfeldt-Jakob disease and BSE in cattle.

The apparent link between some cases of CJD and BSE in cattle has raised the question of why humans should be particularly susceptible to a brain disease of cattle. There is no evidence of humans being affected by scrapie, which has been endemic in sheep for centuries.

Work published in today's *Nature* may provide an insight into this question by revealing some genetic similarities between certain brain proteins in humans and cattle.

The Medical Research Council funded research by Oxford's Department of Zoology and the NERC Institute of Virology into the evolutionary history of the genes that code for prions, the proteins that when altered in certain ways are responsible for CJD, BSE and scrapie.

The cattle prions were, unsurprisingly, more closely related to sheep prions than human prions. But the cattle and human prions share two features of their sequence that are not found in sheep prions. These are two "substitutions", where one amino acid in the prion protein has been swapped for another. The odds of the cattle and human protein sharing these substitutions at these precise positions by chance are just 1.2 in 10,000.

This finding is significant because the substitutions occur in a part of the gene thought to be involved in prion diseases. So far, the role of these substitutions can only be guessed at. It could protect the cellular prion protein from being modified by the pathogenic form of the protein; alternatively it could make them more susceptible.

For the present, David Krakauer, one of the Oxford researchers, warns against drawing over-hasty conclusions. "All we have done is try to shift the debate from pure speculation to half speculation."

Vanessa Houlder

ciba

Dividend 1995

Basel (Switzerland), 24 April 1996

At the General Meeting of the Company held on 24 April 1996, it was resolved that a dividend for the 1995 trading year be declared as follows:

Gross dividend	Sfr. 20.-
Less 35% Federal Withholding Tax	Sfr. 7.-
Net dividend	Sfr. 13.-

per share.

Payment will be made with effect from 29 April 1996

- in respect of Registered Shares sent to the address registered by the holders for this purpose;
- in respect of Bearer Shares against surrender of Coupon No. 4.

Dividends will be paid free of charge at the following banks:

- Swiss Bank Corporation, Basel
- Crédit Suisse, Zurich
- Union Bank of Switzerland, Zurich
- Swiss Volksbank, Berne, or any Swiss branch of these banks
- Bank Sarasin & Co, Basel and Zurich
- Bank Ehinger & Co Ltd., Basel, and
- Messrs Lombard, Odier & Cia, Geneva.

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Shareholders are herewith invited to attend the annual General Meeting of Shareholders

to be held on Friday 10 May 1996 in the WTC Club, World Trade Center, 1 Strawinskylaan, Amsterdam at 3.00 p.m.

The summary agenda is as follows:

1. Opening
2. Report of the Board of Management for 1995
3. Adoption of the annual accounts for 1995 and allocation of the net result
4. (Re)appointment of members of the Supervisory Board
5. Announcements, questions, close

The annual report, including the comprehensive agenda for this meeting, and the financial statements for the year 1995 as well as the details with respect to the members of the Supervisory Board to be (re)appointed are available for inspection at and may be obtained free of charge from the Company's office and the principal offices of the below mentioned banks.

Holders of bearer shares who (in person or by proxy) wish to attend the meeting must have lodged their shares not later than Tuesday 7 May 1996 at one of the following banks who will subsequently send them a receipt which will serve as entrance ticket:

- in the Netherlands at MeesPierson N.V., Amsterdam
- in Belgium at Generale Bank, Brussels
- in Germany at Dresdner Bank A.G., Frankfurt a.M.
- in Italy at Credito Italiano, Milan
- in Switzerland at Swiss Bank Corporation, Zurich
- in the United Kingdom at Midland Bank PLC, London

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The Supervisory Board

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D.R. Hunt, Deputy Secretary
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April 19 1996

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COMMODITIES AND AGRICULTURE

Wheat price surges to new peak in fast trading

The Chicago grains market recorded another record high yesterday when the wheat futures contract for May at the Chicago Board of Trade hit \$6.55 a bushel in fast trading...

farmers have also switched their plantings from oats to spring wheat or corn because of the better prices offered by those markets.

commodities have been falling for the last 40 years - we need a very substantial rise in price if we are going to limit consumption in line with falling supply...

Clouds over Zimbabwe tobacco fields

Good rains and the world shortage of quality leaf point to buoyant prices when Zimbabwe's tobacco auction floors opened this week.

One is the land issue, revived in last month's presidential election campaign by President Robert Mugabe. Since taking office 16 years ago, his administration has been promising to expropriate...

In recent months, he has promised to set up a third tobacco floor - scheduled to start operations within weeks...



Dominated as it is by a handful of international buyers, the auction system may be imperfect but seems the best available

where - by law - growers must sell their leaf on the auction floors, and in an industry with a vast range of different grades and qualities, is unclear. The auction floor sales system, criticised because of the dominance of a handful of major multinational buyers, may be imperfect but seems the best available.

Mine waste management initiative from Canada

By Kenneth Gooding Mining Correspondent in Bal Harbour Canada plans to take the lead in an international initiative to improve the management of mine tailings or waste, said Ms Anne McLellan, Canada's minister of natural resources, yesterday.

Speaking at the Investing in the Americas here in Florida, Ms McLellan said that "concerned governments, international institutions, and the world mining industry must move now to improve the management of tailings".

"It is important for Canada to take a lead role in developing a deeper understanding of the technical problems associated with mine tailings management," Ms McLellan said.

OPIC restores Irian Jaya cover

By Manuela Saragosa in Jakarta The US Overseas Private Investment Corporation has reinstated \$100m in political risk insurance for Freeport's copper and gold mining operation on the island of Irian Jaya, Indonesia.

The past it had made significant progress in recent years. It noted that Freeport had adopted 24 of the 23 recommendations made by the auditors, many of which go beyond the Indonesian government's requirements.

OPIC, a US government agency which provides insurance for US companies doing business overseas, will monitor the implementation of the recommendations throughout the eight-month period of the reinstatement, Freeport said.

BHP obtains delay

By Nikki Tait in Sydney and agencies Broken Hill Proprietary, the large Australian mining group, has won a 60-day stay in its long-running court battle with Papua New Guinea villagers over compensation for environmental damage resulting from the Ok Tedi copper mine.

The law, which came into effect earlier this month, makes it an offence to pursue such claims through foreign courts, and provides for financial and jail term penalties.

COMMODITIES PRICES

BASE METALS

Table with columns for metal type (Copper, Aluminum, Zinc, Lead, Tin), price change, and price per unit.

Precious Metals continued

Table with columns for metal type (Gold, Silver, Platinum, Palladium), price change, and price per unit.

GRAINS AND OIL SEEDS

Table with columns for grain type (Wheat, Corn, Soybeans, Barley), price change, and price per unit.

SOFTS

Table with columns for soft commodity type (Cocoa, Coffee, Sugar), price change, and price per unit.

MEAT AND LIVESTOCK

Table with columns for livestock type (Live Cattle, Live Hogs, Pork Bellies), price change, and price per unit.

ENERGY

Table with columns for energy type (Crude Oil, Heating Oil, Coal, Natural Gas), price change, and price per unit.

FUTURES DATA

Table with columns for futures contract type (NATURAL GAS, GAS OIL, SOYBEAN MEAL), price change, and price per unit.

PRECIOUS METALS

Table with columns for precious metal type (Gold, Silver, Platinum, Palladium), price change, and price per unit.

INDEXES

Table with columns for index type (REUTERS, CRB Futures, VOLUME DATA), price change, and price per unit.

JOTTER PAD

Notes and short news snippets under the Jotter Pad section.

CROSSWORD

Crossword puzzle grid with clues and a solution key provided at the bottom.

PHARMACEUTICAL BUSINESS NEWS

Vertical text on the left side of the page, likely related to pharmaceutical news.

Handwritten text in a box at the top of the page, possibly a note or signature.

INTERNATIONAL CAPITAL MARKETS

Gilts auction bid better than expected

By Samer Iskandar in London and Lisa Branstetter in New York

International government bonds had a quiet session, with little change in prices, as markets had to absorb new 10-year paper in the UK and Germany, as well as an auction of five-year notes in the US.

Limited said the difference between the average price at the auction of 95 1/2 and the market price just before the auction of 96 1/2 showed that "large domestic accounts were quite willing to buy - and hold - gilts, provided the price is right".

UK gilts continued to perform strongly, with the yield spread of 10-year UK gilts over Irish gilts widening by one basis point to 63 points.

Mixed signals about the strength of the US economy and an auction of \$12.5bn in five-year notes set for later in the day kept US Treasury prices near their levels of late Tuesday in morning trading.

Near midday, the benchmark 30-year Treasury was 1/2 lower at 90 1/2 to yield 6.72 per cent while the two-year note was unchanged at 99 1/2, yielding 5.92 per cent.

Traders were hopeful that the afternoon's auction would bring the solid demand seen for Tuesday's two-year notes.

GOVERNMENT BONDS

In early trading, existing five-year notes were unchanged at 100 1/4 to yield 6.23 per cent. Figures on March durable goods orders were generally interpreted as weak, despite a larger than expected gain in the total.

Most of the gains, however, came from a jump in aircraft orders that tend to be volatile and lag broader economic trends.

"Excluding aircraft, the data indicate continued growth in the manufacturing sector, but at a moderate pace," said Ms Marilyn Schajda of Donaldson Lufkin & Jenrette.

German bunds closed slightly higher, as dealers bought bonds to cover short positions they had taken before yesterday's auction of 10-year paper.

French OATs ended a quiet session slightly higher ahead of today's meeting of the central bank's monetary policy council.

Italian bonds ended slightly higher, in line with other European markets. Life's June BTP future settled at 114.03, up 0.08.

88.80, up 0.04. The spread over German bunds was unchanged at 355 basis points.

Mr Mark Fox, head of fixed income research at Lehman Brothers, said "the convergence pattern has slowed down, which is normal after the recent strong move".

He said Italian short-term interest rates could fall by approximately one percentage point in the near future but warned that short maturities had already "factored in the cut".

Swedish bonds traded in line with bunds, the 10-year benchmark closing up 0.18 at 86.285. Lehman's Mr Fox said he believed this market to be the most promising of the European high yielders.

Two jumbo Pfandbriefe, or covered bonds, were also issued: DM1bn of six-year paper for Rheinstetten Hypothekbank and DM1bn of four-year paper for Westfälische Hypothekbank.

Record D-Mark jumbo for Allianz International

By Corner Middlemann

The eurobond market was dominated by jumbo offerings - especially in the D-Mark sector, which saw three issues totalling DM3.5bn.

The highlight was the largest D-Mark issue for a German corporate: a DM1.5bn seven-year offer for Allianz International Finance, the funding arm of Germany's biggest insurance company.

However, that was offset by the issuer's razor value and its popularity among German and Swiss retail investors, said Lehman's Mr Fox.

Two jumbo Pfandbriefe, or covered bonds, were also issued: DM1bn of six-year paper for Rheinstetten Hypothekbank and DM1bn of four-year paper for Westfälische Hypothekbank.

Another successful issuer in dollars was ABN Amro Bank, whose \$500m five-year deal saw such demand that its yield premium over Treasuries tightened slightly from the launch spread of 26 basis points.

The bank hasn't done a public bond issue since the merger five years ago, and we wanted this to be a bellwether institutional transaction," said an official at lead manager ABN Amro Hoare Govett.

The first lira-denominated asset-backed securitisation, L785bn for SCOR Series One, was collateralised by a \$500m US dollar credit card backed loan for MENA, the US credit card company.

Nonetheless, traders did not expect yesterday's deals to eclipse opportunities for a lira asset-backed market, so the easiest thing was to take an existing security, repack it and watch the response," said an official at lead J.P. Morgan.

The coupon is just 1 basis point above three-month Libor, but most lira FRNs tend to yield below that level.

Merrill Lynch launched an asset-backed floater for MENA Master Trust. The \$67.5m deal will be priced today with a coupon of one-month Libor plus 15 to 18 basis points.

Mexican Brady offer to test investor confidence

By Richard Lapper

Mexico's offer to exchange up to \$2.5bn in outstanding Brady bonds for a new 30-year dollar-denominated global bond will provide an important test of investor confidence in the country, which is recovering from the financial crisis of early last year.

More broadly, it could also provide clues to the way other Brady bonds - issued by Latin American and some other governments in exchange for distressed commercial bank debt - might be restructured.

The offer, launched last week, is complex but the basic principle underlying it is straightforward enough.

In exchange for Brady bonds, which yesterday yielded 341 basis points over 30-year US Treasuries, investors are being offered a new security which will yield at least 425 basis points over Treasuries, with the exact pricing and yield calculation depending on the result of a "Dutch auction" to be held later this month.

At the same time, however, investors that opt to trade in the Bradys will assume greater risk. All Mexico's Bradys are backed by collateral in the form of 30-year zero-coupon US Treasuries, providing an element of safety in the event of default. By contrast, the new global bond provides no such protection.

The Brady market prices Mexican risk though the "stripped yield spread", which is calculated on the price of the Brady less the price of the zero-coupon collateral. The stripped spread on Mexican paper stood at 734 basis points over Treasuries yesterday.

However, the Mexican government argues that as a guide to pricing default risk, the stripped yield spread is inefficient and introduces an upwards bias into the longer end of its yield curve.

It says that this is because the stripped yield is theoretical: to access it, investors would need to buy a derivative instrument, and that could be expensive.

By contrast, the new global bond gives easier access to Mexican risk. Dealers and analysts are currently betting that the spread on the new instrument will be between 525 and 575 basis points over Treasuries, compared with a yield spread of about 370 points over Treasuries on Mexico's benchmark 10-year eurobond.

For many investors this may not be sufficient compensation for holding 30-year Mexican paper: after all, Mexico has defaulted on its debt as recently as 1982.

Other investors could well be interested, however. For those looking for income, the higher coupon is attractive. The new global could have a coupon of about 12 per cent, for example, compared with just 6.88 per cent for Mexican discount bonds and 6.25 per cent for its par bonds.

Mexican banks are also expected to be keen on the new instrument, partly because of accounting rules.

Indeed, last week positive sentiment about the deal helped bolster the price of Mexican Brady bonds.

According to West Merchant Bank's secondary market debt price index, by yesterday afternoon Mexico's Brady bonds had risen by 3 per cent since April 15, compared with a 2.3 per cent rise for the index as a whole over the same period.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Amount, Coupon, Price, Maturity, Issue Date, Spread, Book-Runner. Lists various international bond issues from US Dollars, DM, and other currencies.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Table showing benchmark government bond prices for various countries including Australia, Austria, Belgium, Canada, Denmark, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, Portugal, Spain, Sweden, UK Gilts, and US Treasury.

BOND FUTURES AND OPTIONS

Table showing bond futures and options prices for various countries including UK, France, Germany, and Italy.

FT-ACTUARIES FIXED INTEREST INDICES

Table showing FT-actuaries fixed interest indices for various countries including UK Gilts, US, and others.

FT-GILT EDGED ACTIVITY INDICES

Table showing FT-gilt edged activity indices for various countries including UK, US, and others.

FT/ISMA INTERNATIONAL BOND SERVICE

Table showing FT/ISMA international bond service data for various countries including US, UK, and others.

US INTEREST RATES

Table showing US interest rates for various maturities including Treasury Bills and Bond Yields.

UK GILTS PRICES

Table showing UK gilts prices for various maturities including 12-month, 18-month, 24-month, 30-month, and 36-month.

OTHER FIXED INTEREST

Table showing other fixed interest rates for various countries including Australia, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Portugal, Spain, Sweden, and UK.

CONVERTIBLE BONDS

Table showing convertible bond prices for various countries including US, UK, and others.

STRAIGHT BONDS

Table showing straight bond prices for various countries including US, UK, and others.

COMMODITIES

Table showing commodity prices for various items including oil, gold, and other metals.

UK GILTS PRICES

Large table showing UK gilts prices for various maturities including 12-month, 18-month, 24-month, 30-month, and 36-month.

OTHER FIXED INTEREST

Table showing other fixed interest rates for various countries including Australia, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Portugal, Spain, Sweden, and UK.

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1.50

CURRENCIES AND MONEY

MARKETS REPORT

Foreign exchange markets go off the boil

By Philip Gawth

Currency markets had a quieter day yesterday following the recent spurt in activity prompted by the cut last week in German interest rates and the centre-left victory in the Italian elections.

The dollar moved in a narrow 60 basis point range against the D-Mark, compared to the normal range of 100-130 basis points. It closed in London at DM1.5219, from DM1.518.

Against the yen it finished at Y108.785, from Y106.455. The D-Mark was generally steadier, and this was reflected in the D-Mark/yen rate.

Although this did not mean point dip below Y70 to Y80, it later recovered to close at Y70.16, from Y70.12.

The lira had a steadier day after its sharp gains at the start of the week. It finished unchanged at L1.023. The French franc, meanwhile, continued to steam ahead, closing at FF23.377, from FF23.888.

Sterling continued to benefit from D-Mark weakness, rising to a seven month high of DM2.3062, before finishing at DM2.3023. Against the dollar it closed at \$1.5128, from \$1.5144.

The two dominant forces in the market recently - the weakening D-Mark, and the \$/Yen rate - remain live issues, but the D-Mark's ability to rally against the yen was an indication that these trends were temporarily in abeyance.

While the dollar retains a large band of bullish followers, there is no shortage of cautionary voices. One factor cited as supporting a firmer dollar is the US's shrinking trade deficit.

But Mr Carl Weinberg, chief economist at High Frequency Economics in New York, said the improvement did not merit a stronger dollar.

"The US deficit on goods and some services is still running at an annualised rate of about \$100bn a year."

He continued: "For the currency markets, the reduction in the US trade deficit is a lessening of a negative factor, but not necessarily a positive factor...we prefer to think of the dollar's situation as being less bad rather than more good."

Mr Weinberg also hinted that trouble might lie ahead when US asset markets go into reverse. "To finance a current account deficit, a nation must borrow the shortfall from the rest of the world. A good performing stock and bond market helps a deficit country stay afloat. However, heaven help the dollar if the stock and bond markets ever fizzle."

Technical analysis also provides grounds for caution. Mr Richard Donaldson, a Berkshire based Elkhart Wave analyst, said the five wave price

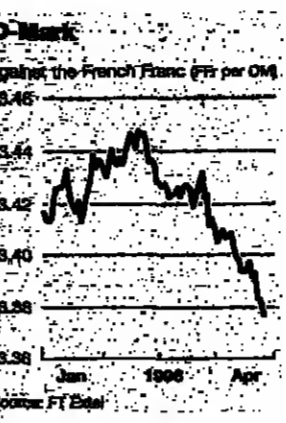
move upwards from Y80 to Y108 was "the clearest signal that mass market psychology is presently over optimistic on the dollar against the yen. A reaction, at least in terms of profit-taking, if not trend change downwards, is imminent."

Mr Donaldson said he expected the market to "take profits to about the Y94 level by June

- a fall of 13 per cent. What it does after that will be crucial to the long term trend. If the dollar then reverses and breaks through the Y118 level (where the big fall to Y80 started in January 1994) then the long term down trend which started in 1972, or before, may finally have changed upwards."

While sterling's rally looks surprising against the backdrop of a weak government, it does enjoy some theoretical support. Analysis from Merrill Lynch contends that on a purchasing power parity basis, sterling is the most undervalued currency in Europe at the moment and, with the exception of the Canadian dollar, "one of the most undervalued currencies in the industrial world."

The Merrill analysis maintains that sterling and gilts benefit from the fact that the UK may well meet the Maastricht convergence criteria. "If



Source: FT Data

the Labour party wins the next election and then decides to bring sterling into EMU in 1999, both sterling and gilts would benefit enormously."

Some chartists are also optimistic about the outlook for sterling. Ms Patricia Elbaz, analyst at DMS in London, forecasts DM2.35 within six months. She points to the break of the DM2.30 psychological level, the set of higher crosses since April 18, and strong base below DM2.25; and the fact that sterling has only recovered 13 pennings of the 60 pennings fall since it exited the ERM in September 1992.

"A 50 per cent retracement of the large move from DM2.77 to DM2.17 is DM2.47," she notes.

Other currencies are also showing movement. The Japanese yen is up 0.0018 to 108.785, while the Swiss franc is down 0.0002 to 1.023.

The pound sterling is up 0.0002 to 1.5128, while the Australian dollar is up 0.0002 to 0.6811.

POUND SPOT FORWARD AGAINST THE POUND

Table with columns: Apr 24, Closing mid-point, Change on day, Bid/offer spread, Day's bid/offer, One month, Three months, One year, Bank of England index.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table with columns: Apr 24, Closing mid-point, Change on day, Bid/offer spread, Day's bid/offer, One month, Three months, One year, JP Morgan index.

CROSS RATES AND DERIVATIVES

Table showing exchange rates for various currencies including Belgium, Denmark, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, Canada, and USA.

UK INTEREST RATES

Table showing London money rates for various terms: 1 month, 3 months, 6 months, 1 year, 2 years, 3 years, 5 years.

EUROPEAN CURRENCY UNIT RATES

Table showing ECU rates for various currencies: Spain, Netherlands, Belgium, Portugal, Austria, Germany, France, Denmark, Ireland.

BASE LENDING RATES

Table showing base lending rates for various banks and currencies: Adam & Company, Allied Trust Bank, ASB Bank, etc.

LIBOR YIELD RATES

Table showing LIBOR yield rates for various currencies: US Dollar, UK Pound, etc.

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LIBOR YIELD RATES

Table showing LIBOR yield rates for various currencies: US Dollar, UK Pound, etc.

Table showing World Interest Rates for various countries: Belgium, France, Germany, Ireland, Italy, Netherlands, Switzerland, US, Japan, etc.

Table showing Euro Currency Interest Rates for various currencies: Belgian Franc, Danish Krone, Dutch Guilder, French Franc, Portuguese Escudo, Spanish Peseta, etc.

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Large advertisement for LIFFE and TIFFE with the word 'YES' in large letters and text: 'The Euroyen Future from LIFFE and TIFFE. The leading derivatives exchanges in Europe and Asia have linked up to offer global market users direct access to the world's most liquid Euroyen contract...'

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table listing companies in the Alcoholic Beverages sector, including names like Diageo and their share prices.

BANKS, MERCHANT

Table listing banks and merchant companies, including HSBC and their share prices.

BANKS, RETAIL

Table listing retail banks, including NatWest and their share prices.

BREWERIES, PUBS & REST

Table listing breweries, pubs, and restaurants, including Carlsberg and their share prices.

BUILDING & CONSTRUCTION

Table listing building and construction companies, including Balfour Beatty and their share prices.

BUILDING MATS. & MERCHANTS

Table listing building materials and merchants, including Bunnings and their share prices.

CHEMICALS

Table listing chemical companies, including ICI and their share prices.

DISTRIBUTORS

Table listing distributor companies, including Marks & Spencer and their share prices.

DIVERSIFIED INDUSTRIALS

Table listing diversified industrial companies, including Anglo American and their share prices.

ELECTRICITY

Table listing electricity companies, including British Energy and their share prices.

ENGINEERING

Table listing engineering companies, including BAE Systems and their share prices.

ENGINEERING, VEHICLES

Table listing engineering and vehicle companies, including Ford and their share prices.

EXTRACTIVE INDUSTRIES

Table listing extractive industries companies, including Anglo American and their share prices.

ELECTRONIC & ELECTRICAL EQPT - Cont.

Table listing electronic and electrical equipment companies, including Philips and their share prices.

ENGINEERING

Table listing engineering companies, including BAE Systems and their share prices.

EXTRACTIVE INDUSTRIES - Cont.

Table listing extractive industries companies, including Anglo American and their share prices.

FOOD PRODUCERS

Table listing food producer companies, including Unilever and their share prices.

GAS DISTRIBUTION

Table listing gas distribution companies, including British Gas and their share prices.

HEALTH CARE

Table listing health care companies, including AstraZeneca and their share prices.

HOUSEHOLD GOODS

Table listing household goods companies, including Hoover and their share prices.

INSURANCE

Table listing insurance companies, including Aviva and their share prices.

INVESTMENT TRUSTS

Table listing investment trusts, including various funds and their share prices.

EXTRACTIVE INDUSTRIES - Cont.

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INVESTMENT TRUSTS - Cont.

Table listing investment trusts, including various funds and their share prices.

INVESTMENT TRUSTS SPLIT CAPITAL

Table listing investment trusts with split capital, including various funds and their share prices.

INVESTMENT TRUSTS

Table listing investment trusts, including various funds and their share prices.

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Advertisement for NatWest Share Offer with the headline 'Don't be side tracked.' and contact information for the Share Office.

ENGINEERING - Cont.

Table listing engineering companies, including BAE Systems and their share prices.

EXTRACTIVE INDUSTRIES - Cont.

Table listing extractive industries companies, including Anglo American and their share prices.

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Handwritten Arabic text: 'صكنا من الاجل'

سكزا من الاعلى

BY TRUSTS SPLIT CAPITAL - Cont.

Table listing various trusts and their financial details, including names like 'The British Trust for Africa' and 'The British Trust for International Development'.

LEISURE & HOTELS - Cont.

Table listing leisure and hotel companies such as 'The Rank Group' and 'The Travel Companies'.

OTHER FINANCIAL - Cont.

Table listing other financial services companies like 'The Royal Bank of Scotland' and 'The Commercial Union Assurance Co'.

PROPERTY - Cont.

Table listing property-related companies and their financial data.

SUPPORT SERVICES - Cont.

Table listing support services companies such as 'The British Skyways Group' and 'The British Airways'.

AIM - Cont.

Table listing companies on the Alternative Investment Market (AIM) with their respective share prices.

OTHER INVESTMENT TRUSTS

Table listing various investment trusts and their performance metrics.

LIFE ASSURANCE

Table listing life assurance companies and their financial details.

PAPER, PACKAGING & PRINTING

Table listing paper, packaging, and printing companies.

RETAILERS, FOOD

Table listing food retailers and their financial data.

RETAILERS, GENERAL

Table listing general retailers and their financial data.

TELECOMMUNICATIONS

Table listing telecommunications companies and their financial data.

LEISURE & HOTELS

OIL EXPLORATION & PRODUCTION

PROPERTY

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

WATER

AIM

Advertisement for CMG: 'YOU'D BE FAR MORE SUCCESSFUL IF YOU STOPPED PAYING YOUR STAFF.' Includes text about payroll services and the CMG logo.

GUIDE TO LONDON SHARE SERVICE. Includes instructions on how to use the share price data, definitions of various terms, and contact information for the FT Group.

FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 373 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Table listing various fund units for Bermuda (SIB Recognised) including Fidelity Currency Funds Ltd, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

BERMUDA (REGULATED)**

Table listing various fund units for Bermuda (Regulated) including Bermuda Investment Management Ltd, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

GUERNSEY (SIB RECOGNISED)

Table listing various fund units for Guernsey (SIB Recognised) including All Investment Managers (Guernsey) Ltd, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

IRELAND (SIB RECOGNISED)

Table listing various fund units for Ireland (SIB Recognised) including All Fund Management Ltd, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

IRELAND (REGULATED)**

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GUERNSEY (REGULATED)**

Table listing various fund units for Guernsey (Regulated) including ANZ Magnet Co (Guernsey) Ltd, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

LET Asset Management Ltd

Table listing various fund units for LET Asset Management Ltd including LET Asset Management Ltd, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

Delors Europe Fund Mgrs Ireland Ltd - Contd.

Table listing various fund units for Delors Europe Fund Mgrs Ireland Ltd including Delors Europe Fund Mgrs Ireland Ltd, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

Mercury Fund Managers Ltd Ltd

Table listing various fund units for Mercury Fund Managers Ltd including Mercury Fund Managers Ltd, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

ISLE OF MAN (REGULATED)**

Table listing various fund units for Isle of Man (Regulated) including AXA Equity & Law Ltd Fund Mgrs, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

JERSEY (SIB RECOGNISED)

Table listing various fund units for Jersey (SIB Recognised) including All Fund Managers (Jersey) Ltd, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

LUXEMBOURG (SIB RECOGNISED)

Table listing various fund units for Luxembourg (SIB Recognised) including AXA AMCO Funds (a), Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

JERSEY (REGULATED)**

Table listing various fund units for Jersey (Regulated) including Bank of Scotland Fund Managers (Jersey) Ltd, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

ISLE OF MAN (SIB RECOGNISED)

Table listing various fund units for Isle of Man (SIB Recognised) including AXA Equity & Law Ltd Fund Mgrs, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

RYSCU International Limited - Contd.

Table listing various fund units for RYSCU International Limited including RYSCU International Limited, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

Fidelity Funds (a)

Table listing various fund units for Fidelity Funds including Fidelity Funds (a), Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

G-C-Bankers Luxembourg SA - Contd.

Table listing various fund units for G-C-Bankers Luxembourg SA including G-C-Bankers Luxembourg SA, Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

LUXEMBOURG (REGULATED)**

Table listing various fund units for Luxembourg (Regulated) including Action International Investments Fund (a), Royal Bank of Canada QFS Fd Mgrs Ltd, and others.

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MARKET REPORT

Lang shock and Wall St tumble upset equities

By Steve Thompson, UK Stock Market Editor

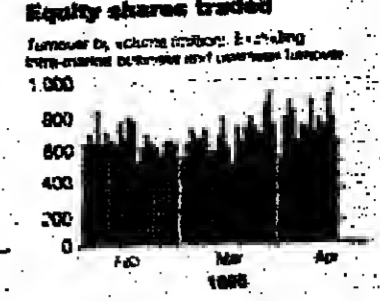
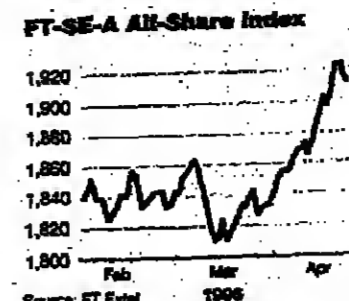
A London stock market looking well set for a strong recovery after two sessions of losses was stopped in its tracks yesterday by shock news that the proposed bids by the two English power generators, National Power and PowerGen, for Southern Electric and Midlands Electricity had been blocked.

market, which retreated sharply. Dealers said many of the big marketmaking firms and international arbitrageurs, who have been running big positions in the relevant stocks, had suffered heavy losses as shares in the generators and recs plummeted.

Sentiment in London was also badly affected by a weak opening to Wall Street, which fell some 20 points shortly after trading started and was down over 40 points not long after dealings stopped in London. Generators/recs occupied the top four placings in the FT-SE 100 worst performers table and the top five rankings in the FT-SE mid 250 league. Falls ranging from 4.5 per cent in Scottish Power to almost 9 per cent in Southern Electric cost the FT-SE 100 index 6.4 points. The index ended at the day's lowest level, 3,817.6, down a net 15.4.

The Mid 250, bolstered by a surprise bid by the Conrad Black-owned Hollinger group for the 36 per cent minority interest in The Telegraph, which produced a 20 per cent jump in Telegraph shares, managed a minor gain, closing 4.6 up at 4,544.7, although a far cry from the 18 points-plus gain it recorded earlier in the session.

And traders once again picked up the scent of impending takeover activity, especially in the utilities, but also around the various sectors. The day's hottest bid stories again included Ladbrokes, the gaming to hotels group, whose shares raced up to top the 200p level amid exceptionally heavy trading. Hilton International, Scottish & Newcastle and Bass remain favourites to break up Ladbrokes. Another bid story gaining momentum over the day was Lucas Industries, whose chief executive, Mr George Simpson, is expected to move over to head GEC.



Indices and ratios table. FT-SE 100: 3817.6 (-15.4). FT-SE Mid 250: 4544.7 (-4.6). FT-SE All-Share: 3817.6 (-15.4). FT-SE All-Share yield: 3.69.

Best performing sectors table. Property: +1.3. Health Care: +1.0. Oil Exploration & Prod: +0.8. Leisure & Hotels: +0.7.

Shock wave in power

The UK government yesterday dropped a bombshell on the electricity sector after it announced it had decided to block the takeover bids for Southern Electric and Midlands Electricity, by two of the UK's largest generators.

shares retreated 36 to 570p, while those of National Power dropped 32 to 564p. Sympathetic falls were also recorded in Scottish Power, where the shares closed 19 down at 373p.

As the session drew to a close, attention turned to likely predators for UK electricity companies. Southern Company, the US utility which has already declared its interest in National Power, was said to be ready to launch a market raid on its desired target anytime from today.

Some analysts suggested that bids will come from both the US and continental Europe, though there were those suggesting that water companies may emerge as the suitors for the recs.

City hopes that Southern Co. of the US, might either offer for Eastern Electricity or bid outright for Hanson Energy were put on hold by the MMC announcement. Up 2 at one stage, the shares ended the day slightly easier at 198p.

A late afternoon statement from the Department of Trade and Industry (DTI) said the minister had decided not to permit PowerGen's offer for Midlands and National Power's bid for Southern Electric.

The market had expected the bids to get the green light after reports of an impending announcement from the DTI seeped through the market on Tuesday, helping shares register strong gains for most of the session yesterday.

One market specialist said: "This is completely unexpected and it leaves the UK electricity sector wide open to bids from overseas companies. The message appears to be that this is OK but it is not alright for UK companies to merge with each other."

The news prompted a sharp reversal in the fortunes of all those involved and shares in Southern Electric tumbled 79 to 824p, the day's worst performer in the Footsie, after a fall of 4.4m. Midlands fell 40 to 371p, to top the list of the day's worst performers in the FT-SE Mid 250 index. There was no love for the would be bidders either and Powergen

retreated 29 to 1131p for a two-day fall of 8 per cent. International conglomerate Hanson was again at the centre of a steady stream of rumour and news threads, and at 22m traded the shares were the second most active Footsie stock.

Weak results from Union Carbide, of the US, served to remind investors of Hanson's exposure to the global chemicals cycle and that next month's second-quarter results are going to be neutral at best.

The negative impact here was initially mitigated by talk that Hanson's energy arm could soon be in play. But the late afternoon announcement on power bids from the MMC sent the stock spinning lower.

City hopes that Southern Co. of the US, might either offer for Eastern Electricity or bid outright for Hanson Energy were put on hold by the MMC announcement. Up 2 at one stage, the shares ended the day slightly easier at 198p.

Speculation that Redland was about to sell its brick business to Wienerberger pushed the stock sharply forward. When it came, the Wienerberger story was all about a link with Belgian rival Koramac. But the Redland share price stayed positive, with investors betting that a brick sale was

imminent. The price tag is said to be between £150m and £200m. Redland closed 11% higher at 434p in 3.3m traded. Caradon put on 8 at 237p.

Electronic engineer Fairley, which flew analysts to the US to view its US operations, came up with a surprise. The shares added 4 at 655p. Computer software specialist Sage Group fell back 10 to 438p ahead of next week's results.

Digital camera group Active Imaging made a strong debut on AIM. Placed at 122p, the shares shot forward to 133p in 2m traded.

Shares in ICT moved sharply ahead as talk that the company may announce a share buyback improved. The shares added 4 at 555p. Computer software specialist Sage Group fell back 10 to 438p ahead of next week's results.

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FUTURES AND OPTIONS

Table of futures and options prices for FT-SE 100, FT-SE Mid 250, and FT-SE All-Share. Includes columns for Open, High, Low, and Close.

MARKET REPORTERS

Jeffrey Brown, Lisa Wood, Joel Kizdo. London recent issues: equities table with columns for Issue, Price, and Volume.

FT GOLD MINES INDEX

Table of gold mines index values for various regions including Africa, Asia, and Latin America.

FT-SE Actuaries Share Indices

Table showing FT-SE Actuaries Share Indices for various sectors like FT-SE 100, FT-SE Mid 250, and FT-SE All-Share.

FT-SE Actuaries All-Share

Large table of FT-SE Actuaries All-Share data, listing various companies and their performance metrics.

Hourly movements

Table showing hourly movements for FT-SE 100, FT-SE Mid 250, and FT-SE All-Share.

FT-SE Actuaries 350 Industry baskets

Table showing FT-SE Actuaries 350 Industry baskets for various sectors like Big 6, Pharmaceuticals, and Banks.

Telegraph bid

News of the bid from Hollinger International pushed the Telegraph sharply forward and sent a number of other sector stocks moving ahead.

Including the special dividend, Hollinger is offering 370p a share which, according to analysts, suggests a p/e ratio of 150, once adjustments have been adjusted for.

"This looks to be something of a fundamental rating. The trading background has improved, with costs easing and advertising picking up. There has been a lot of interest today," said one top sector watcher.

The Telegraph jumped 96 to 359p. Daily Mail Trust added 120 at 1765p and United News and Media rose 10 to 68p.

Reed International continued to slide. The shares retreated 29 to 1131p for a two-day fall of 8 per cent.

London market data

Table of London market data including Total Fees, Total Fails, and Total Contracts.

52 Week highs and lows

Table of 52 week highs and lows for various sectors.

LIFFE Equity options

Table of LIFFE Equity options data.

FT-SE 100

Table of FT-SE 100 performance metrics.

FT-SE Mid 250

Table of FT-SE Mid 250 performance metrics.

FT-SE All-Share

Table of FT-SE All-Share performance metrics.

FT-SE 100

Table of FT-SE 100 performance metrics.

FT-SE Mid 250

Table of FT-SE Mid 250 performance metrics.

FT-SE All-Share

Table of FT-SE All-Share performance metrics.

FT-SE 100

Table of FT-SE 100 performance metrics.

FT-SE Mid 250

Table of FT-SE Mid 250 performance metrics.

FT-SE All-Share

Table of FT-SE All-Share performance metrics.

FT-SE 100

Table of FT-SE 100 performance metrics.

FT-SE Mid 250

Table of FT-SE Mid 250 performance metrics.

FT-SE All-Share

Table of FT-SE All-Share performance metrics.

FT-SE 100

Table of FT-SE 100 performance metrics.

FT-SE Mid 250

Table of FT-SE Mid 250 performance metrics.

FT-SE All-Share

Table of FT-SE All-Share performance metrics.

FT-SE 100

Table of FT-SE 100 performance metrics.

FT-SE Mid 250

Table of FT-SE Mid 250 performance metrics.

FT-SE All-Share

Table of FT-SE All-Share performance metrics.

FT-SE 100

Table of FT-SE 100 performance metrics.

FT-SE Mid 250

Table of FT-SE Mid 250 performance metrics.

FT-SE All-Share

Table of FT-SE All-Share performance metrics.

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.

The FT-SE Actuaries Share Indices are calculated by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

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and are used by FT-SE International Limited under license. Author: The WSI Company. 1 Sector P/E ratios greater than 80 and not covers greater than 30 are not shown. 2 Values are negative.

Member of ING GROUP

OCTOBER 1995

Handwritten Arabic text: سوق المال

السوق العالمية

WORLD STOCK MARKETS

EUROPE

Table of stock market data for Europe, including Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Taiwan, and the UK.

ASIA

Table of stock market data for Asia, including Australia, Hong Kong, India, Indonesia, Korea, Malaysia, New Zealand, Singapore, South Africa, and Taiwan.

PACIFIC

Table of stock market data for Pacific regions, including Japan, Korea, and Taiwan.

AMERICA

Table of stock market data for America, including Canada and the US.

AFRICA

Table of stock market data for Africa, including South Africa.

INDEXES

Table of various stock market indices including Dow Jones, Nikkei, S&P 500, and others.

US INDICES

Detailed table of US stock market indices and their performance.

NEW YORK

Table of stock market data for New York, including major indices and individual stocks.

AMERICA

Table of stock market data for other American markets.

AFRICA

Table of stock market data for African markets.

Advertisement for Rockwell: 'When Rockwell isn't powering the Shuttle into space it's delivering just-in-time sunroofs in 136 minutes'.

Advertisement for Rockwell featuring the company logo and name.

INDICES

Table of stock market indices and their performance.

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Table with columns: Ticker, Price, Change, Volume. Includes various stock tickers and their corresponding market data.

Table with columns: Ticker, Price, Change, Volume. Continuation of stock market data from the first table.

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Continued on next page

NYSE COMPOSITE PRICES

Table of NYSE Composite Prices with columns for Stock, P, H, L, C, and various price points. Includes sub-sections for 'Continued from previous page', 'A-Z', and 'X-Y-Z'.

NASDAQ NATIONAL MARKET

Table of NASDAQ National Market prices with columns for Stock, P, H, L, C, and various price points. Includes sub-sections for 'Continued from previous page', 'A-Z', and 'X-Y-Z'.

AMEX COMPOSITE PRICES

Table of AMEX Composite Prices with columns for Stock, P, H, L, C, and various price points.

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Continuation of financial data tables from the previous page, including various stock price listings and market indices.

AMERICA

Strong earnings data help technology sector

Wall Street

Another spate of strong earnings helped technology shares continue their steady march higher in early trading, while broader indices lost ground, writes Lisa Brunsten in New York.

Although Compaq Computer trades on the NYSE, its stronger than expected quarterly earnings and positive outlook for the personal computer sector helped the Nasdaq composite to a 5.90 point gain at 1,172.66 near 12.30 pm.

The Pacific Stock Exchange technology index added 1.1 per cent. Compaq was up 3.5% or 9 per cent at \$48. Digital Equipment added another 3.2% to the 3.4% it jumped on Tuesday after its healthy earnings report. Hewlett-Packard moved ahead 3.2% to \$108.1.

Internet-related companies were boosted by a healthy report from Netscape Commu-

nications, which leapt 8.6 or 9 per cent to \$87 after reporting earnings of 6 cents a share, 2 cents above estimates. The American Stock Exchange/Interactive Week Index of Internet stocks rose 1.7 per cent.

A few disappointing results weighed on other broader indices. At 12.30 pm the Dow Jones Industrial Average was off 37.22 at 5,551.37, the Standard & Poor's 500 had eased 1.68 to 649.90 and the American Stock Exchange composite lost 1.30 at 599.43.

Walt Disney, a component of the Dow, lacked a component of the 4% to 5% fall on Tuesday after revealing earnings just shy of analysts' expectations, bringing the shares to \$59.7. Du Pont, another Dow component, dipped 1.1% to \$88.4 after announcing operating earnings of \$1.61, in line with market expectations.

Goodyear Tire & Rubber, also in the Dow, eroded 4% to \$50.7 following earnings of 98 cents a share, 2 cents ahead of estimates. US Air gave up 4% or 4 per cent at \$16.4 after reporting a first-quarter loss of 96 cents a share.

Canada

Toronto edged lower in mid-session trading, ending Tuesday's record high close, and the TSE 300 was 6.64 softer by noon at 5,110.30 in volume of 52.5m shares.

BCE remained in the spotlight, rising 75 cents to C\$53.70. Analysts said that the stock was hitting new highs on expectations of strong quarterly earnings and on speculation

EUROPE

Philips up, reports 30% decline in Q1

Philips announced a 30 per cent fall in first-quarter profits in AMSTERDAM, but this was broadly in line with analysts' expectations and the shares gained F11.40 at F161.90. The AEX cruised to another record, putting on 1.63 at 553.98, having hit an intra-day record high of 556.55.

The view on Philips was that a difficult first half of 1996 had been expected and it was anticipated that the second half would be better. Analysts noted, however, that the semiconductor division had performed badly, with operating profit dipping by 25 per cent.

Polygram recoded F1.450 to F1.99.70 as it was rumoured that it had withdrawn its interest in acquiring the MGM studio in Hollywood.

Pakhoed shed F12.50 to F14.80 after the tank storage and shipping group announced that first-quarter results had been disappointing and the trend was likely to persist. The company blamed weakness in Rotterdam oil storage activities as well as lower capacity utilisation levels at its oil tanks.

In Frankfurt, ING moved forward F1.430 to F1.51.40.

PARIS made a healthy gain, with Carrefour, the supermarket group, hitting a record peak in very high volume. The CAC-40 index rose 10.12 to 3,122.10 as Carrefour added F7.29 to FF3,596.

Analysts said that market had been impressed by Carrefour's overseas expansion plans, released last week, which would help the company overcome weakness in the domestic sector. Club Med rose FF7.27 to FF74.89 on positive booking levels.

ZUMER resumed its upward march, posting technical gains and helped by the stable dollar, and with results from Roche at the centre of attention. The SMI index rose 2.11 to 3,665.4.

ASIA PACIFIC

Nikkei average ends at fresh four-year high

Nikko Securities Y30 to Y1,390. In Osaka, the OSE average rose 134.68 to 23,697.85 in volume of 73.7m shares.

Roundup

SEOUL moved up sharply in late trade, led by institutional interest in high-technology shares after their recent performance in the US and Japan, and the composite index hit record closing high for the year, up 16.08 at 956.61.

Banks were mixed after being pressured by fears that there would be an oversupply of stocks in July, when three banks are listed. Kookmin Bank rose Won200 to Won15,800 but Seoulbank fell Won20 to Won6,660.

SHANGHAI's local currency A shares, available only to domestic investors, jumped 8.5 per cent on news that the exchange was cutting dealing fees to stimulate trade. The index rose 44.151 to a 1996 high of 692.191.

HONG KONG was aimless ahead of Monday's April index futures expiry and the Hang Seng index ended just 9.64 up at 10,893.69, having spent the day moving in a tight band of 53 points. Turnover dwindled to HK\$3.1bn.

SINGAPORE overcame early losses to close flat, with the Straits Times Industrial index finally 2.45 points ahead at 2,381.8.

Property shares lost more ground after sharp falls on Tuesday on talk of measures to curb speculation in the private residential market and new guidelines issued by the exchange for companies' disclosure of property sales to their directors and related parties.

MANILA throttled back on profit-taking. The composite index ended 37.27 or 1 per cent at 2,989.83.

SYDNEY initially built on Tuesday's rally which followed the better than expected March quarter CPI data. But the market subsequently declined as option expiry weighed on shares late in the session. The All Ordinaries index lost 16.3 at 2,316.3.

TURNOVER was boosted by stock option expiries, with A\$650m worth of shares changing hands.

FT-SE European Share Indices

Table with columns: Index, Open, High, Low, Close, Change. Rows include FT-SE 100, FT-SE 250, FT-SE 500, and various European indices like DAX, CAC-40, etc.

Computer 2000 fell steadily during the day, ending off DM58 at DM568 after reporting a drop in 1995 profits.

Siemens finished DM1.60 down at DM286.20 after reporting first-half figures, while Mannesmann surrendered DM6.45 to DM558.45 after giving a gloomy prognosis of the economy.

Computer 2000 fell steadily during the day, ending off DM58 at DM568 after reporting a drop in 1995 profits.

Holderbank firmed SF710 to SF790 as CS Equity Research upgraded the cement and concrete group on an improved long term outlook for US and European construction sectors.

The other volatile SMH continued to draw strength from foreign demand, adding SF32 at SF7806 and taking the advance over the last three sessions to 9.3 per cent.

FRANKFURT saw low volume trading mar activity as the Dax index declined 11.92 to 2,438.28. In the Ibis the indicator moved to 2,524.84.

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its French stable mate Cerus. Cir, the industrial holding company, rose LS5 to L1.65.

Among the day's corporate reports, Fiat picked up L50 to L5,560, overcoming an early fall amid nervousness ahead of the 1995 results and possible trading update expected after the market closed.

BRUSSELS saw Barco, the electronics manufacturer, make BFR110 or 2.2 per cent to BFR2,910, as the Bel-20 index closed 1.17 higher at 1,720.66. Turnover was BFR2.6bn.

Electrafina lost BFR35 to BFR2,910, having been suspended on news that it would pay BFR17.5bn to lift control in Audiofina, the media holding company, by 17.2 per cent. Audiofina owns GLT, the broadcaster.

VIRNNA made its sixth consecutive gain and the AEX rose 11.02 or 1 per cent to 1,128.87. Wienerberger was suspended after the building materials company announced a partnership with Koramic of Belgium, which could create the world's biggest brick manufacturer.

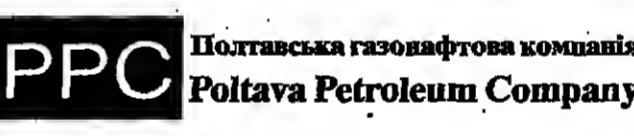
Written and edited by Michael Morgan and John Pitt

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES. Table with columns: Market, No. of stocks, Apr. 18 1996, % Change over week on Dec '95, Local currency terms, Apr. 18 1996, % Change over week on Dec '95.

There had been hopes that Vietnam would have a functioning equity market during 1996, but the start-up date has been postponed, writes John Pitt. Standard Chartered, in a briefing document issued this week, says that while the government has announced its intention to sell some 200 state-owned enterprises this year, the establishment of a stock market remains at least 18 months away.

FT/S&P ACTUARIES WORLD INDICES

Table with columns: Country, Index, US Dollar, Day's Change, Pct Change, Tuesday April 22 1996, Monday April 22 1996, Dollar Index, Year Ago.



POLTAVA PETROLEUM COMPANY, Ukraine

Joint Venture

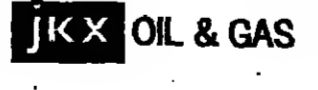
USD 8,000,000

Senior term loan to finance the development of the Novo Nikolaevskoye oil and gas field complex.

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